

2024 ANNUAL REPORT



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HÉROUX-DEVTEK AT A GLANCE

Established in 1942 and listed as HRX on the Toronto Stock Exchange, Héroux-Devtek has risen to become **the world's third-largest landing gear manufacturer.**

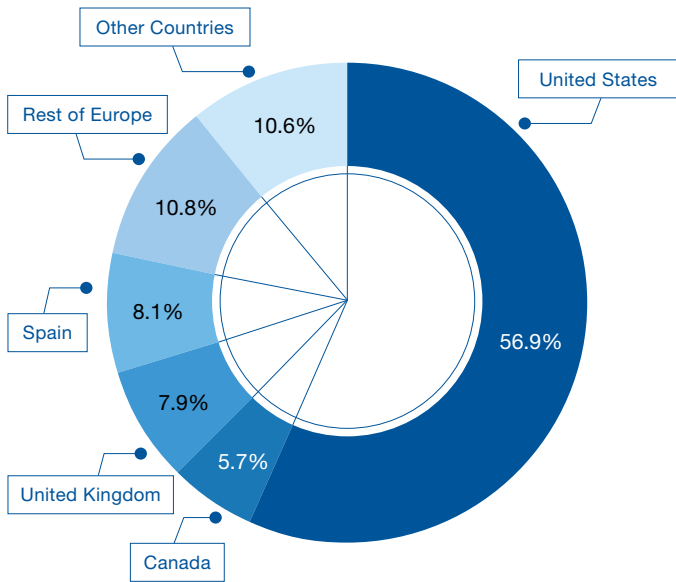
The company excels in the design, development, manufacturing, repair, and overhaul of aircraft landing gear systems, along with hydraulic and electromechanical actuators, custom ball screws, and fracture-critical components. Serving both civil and defence market segments, Héroux-Devtek is renowned for its ability to deliver complete landing gear and actuation systems tailored to specification, backed by a reputation for exceptional support and service for a broad spectrum of aircraft, including those no longer in production.

Operating from its headquarters in Longueuil, Québec, Canada, Héroux-Devtek employs approximately 1,900 dedicated staff across 15 centres of excellence strategically located in Canada, the United States, the United Kingdom, and Spain. The company is known for its innovative solutions, system integration prowess, engineering excellence, and commitment to world-class service and execution, continuously leading the industry with its forward-thinking approach and expert capabilities.

DIVERSIFIED AND BALANCED REVENUE MIX

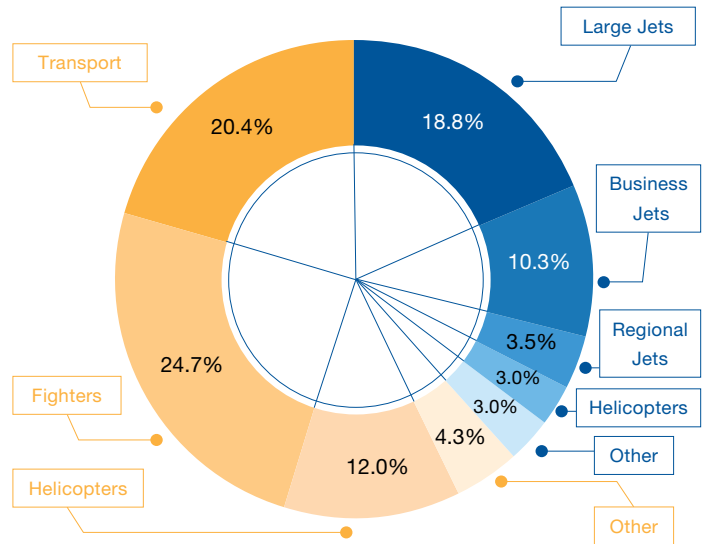
Based on fiscal 2024 sales

FISCAL 2024 SALES MIX BY END CUSTOMER LOCATION

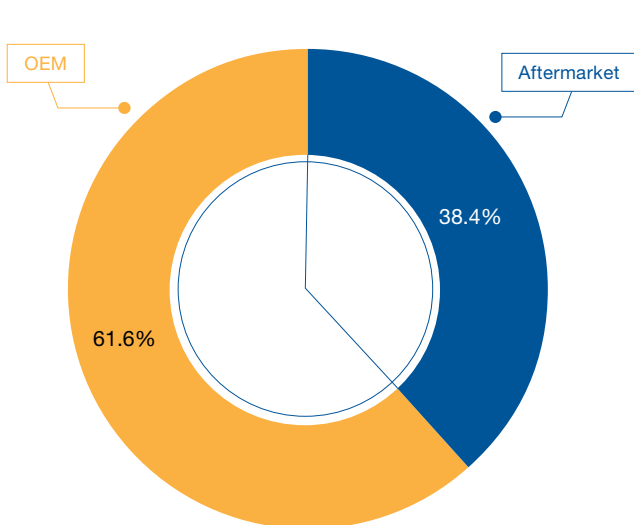


DEFENCE | CIVIL

61.4% Defence | 38.6% Civil

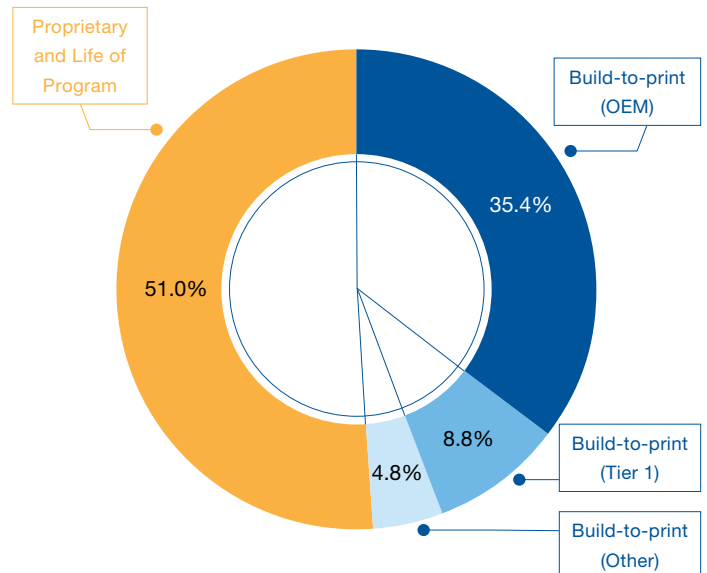


OEM | AFTERMARKET



PROPRIETARY | BUILD-TO-PRINT

51% Proprietary | 49% Build-to-print



FINANCIAL HIGHLIGHTS

FISCAL YEAR ENDED MARCH 31

2024

2023

2022

2021

2020

OPERATING RESULTS

(in millions of dollars except per share data and ratios)

Sales	629.8	543.6	536.1	570.7	613.0
Operating income (loss)	59.8	26.2	44.8	34.1	(30.1)
as percentage of sales	9.5%	4.8%	8.4%	6.0%	(4.9)%
Adjusted EBITDA ⁽¹⁾	92.2	61.4	83.0	88.3	96.2
as percentage of sales	14.6%	11.3%	15.5%	15.5%	15.7%
Net income (loss)	38.3	13.8	32.1	19.8	(50.7)
Adjusted net income ⁽¹⁾	34.3	12.6	33.8	29.0	35.7
Cash flows related to operating activities	2.9	30.1	63.2	89.2	52.6
Free cash flow (usage) ⁽¹⁾	(31.5)	(1.7)	45.9	67.7	30.3
Funded backlog	951.0	864.0	682.0	717.0	810.0

PER SHARE DATA

EPS - basic (loss)	1.13	0.40	0.91	0.55	(1.38)
Adjusted EPS ⁽¹⁾	1.01	0.37	0.95	0.80	1.00
Weighted-average number of common diluted shares outstanding (in 000's)	33,653	34,485	36,023	36,523	36,363

FINANCIAL POSITION

Cash	9.8	15.0	86.7	95.5	45.8
Working capital	266.9	199.3	235.6	241.4	205.4
Total assets	911.4	821.3	813.4	854.8	898.8
Long-term debt ⁽²⁾	219.6	180.0	238.8	253.0	292.7
Net debt to adjusted EBITDA ratio ⁽¹⁾	2.3	2.7	1.8	1.8	2.6
Shareholders' equity	429.6	390.9	377.3	391.7	349.4

[1] These are non-IFRS measures. Please refer to the "Non-IFRS financial measures" section of the MD&A under *Operating Results* for definitions and reconciliations to the most comparable IFRS measures.

[2] Excluding net deferred financing costs.

EXECUTIVE CHAIRMAN OF THE BOARD OF DIRECTORS MESSAGE TO SHAREHOLDERS



GILLES LABBÉ

Executive Chairman of the Board

“Our achievements over the past year are a collective reflection of the dedication, hard work, and strategic acumen of our team.”

Dear Shareholders,

In the ever-evolving landscape of the aerospace industry, 2024 has unfolded with a unique blend of challenges and opportunities. The current geopolitical tensions, while causing market disruptions, have also opened doors in the defence sector, presenting unique opportunities amidst the global economic shifts. These dynamics, driven by escalating conflicts and supply chain vulnerabilities, have called for a strategic reassessment and robust response, particularly in the aerospace sector where corporations worldwide are finding new prospects for growth and innovation.

NAVIGATING COMPLEXITIES WITH AGILITY AND RESILIENCE

Héroux-Devtek, in this complex environment, has remained steadfast in its commitment to operational excellence delivering on our strategic priorities: stabilizing the supply chain, enhancing automation, and revising pricing strategies. These priorities are critical levers that have enabled us to realign our operational efficiency and financial performance to pre-pandemic standards, indicating a resilient and adaptable business model.

Delving into the specifics, the stabilization of the supply chain has been paramount. In an era where logistical disruptions have become the norm, our proactive measures in securing critical supplies and diversifying our supplier base have shielded us from the brunt of market volatility. Automation, on the other hand, has emerged as a cornerstone of our



operational strategy, driving efficiency, reducing costs, and ensuring a sustainable production lifecycle. The strategic revision of our pricing mechanism, in tandem with these efforts, has bolstered our financial resilience, empowering us to navigate the turbulent economic environment with confidence.

The backdrop of these operational strategies is a broader economic situation that plays to our strengths. Despite the prevailing uncertainties, the aerospace sector's fundamentals remain robust, with Héroux-Devtek's diversified portfolio positioning us advantageously. Our ability to adapt and thrive in these conditions is a testament to our strategic planning and execution.

STRATEGIC CAPITAL ALLOCATION FOR SUSTAINABLE GROWTH

Transitioning to capital allocation, our approach has been one of prudent evaluation and strategic patience. In an active market for mergers and acquisitions, our focus has been on identifying and pursuing opportunities that promise not just growth but strategic synergies and long-term value creation. This approach has led us to be selective, prioritizing ventures that align with our core competencies and strategic objectives. Consequently, we have adopted a cautious stance on mergers and acquisitions, emphasizing the quality of investments over mere expansion.

Investing in our core business remains our top priority. Allocating capital to inventory not only helped us

navigate supply chain disruptions but also set the stage for future success. The opportunities we have for organic growth put us in a strong position to generate operational efficiency, driving shareholder value and bolstering corporate resilience.

In closing, I would like to thank all our stakeholders. Your unwavering support has been a cornerstone of our success, enabling us to navigate the complexities of the current market landscape with confidence and determination. Our achievements over the past year are a collective reflection of the dedication, hard work, and strategic acumen of our team. As we continue this journey, our commitment to operational excellence, strategic growth, and shareholder value remains unwavering. Together, we are charting a course towards a bright and prosperous future for Héroux-Devtek.

GILLES LABBÉ

Executive Chairman of the Board

PRESIDENT & CEO MESSAGE TO SHAREHOLDERS



MARTIN BRASSARD

President and Chief Executive Officer

“ This new reality is a testament of the trust and recognition our clients place in the quality, safety, and excellence of our products. ”

EXECUTING TO PLAN

As we close the books on fiscal 2024, I reflect on the past year, a period marked by continued instability in the aerospace supply chain and uncertain economic environment. We entered the year with three priorities to get Héroux-Devtek back on track towards its strong historical performance. As I mentioned in my message to shareholders the previous year, our plan was to restore the health of our supply chain and stabilize our production system, examine our production processes to identify efficiency gains and review our pricing and supply agreements to offset the effects of inflation.

I am pleased to announce that this three-pronged strategy has paid off and produced both excellent financial results and laid the groundwork for future growth. Through diligent management and the collaborative efforts of our employees throughout the organization, we achieved record sales of \$629.8 million and an EPS of \$1.13, aligning with our goal to restore Héroux-Devtek to its strong historical profitability levels, which we believe we can surpass in the coming years. By stabilizing our supply chain and securing the availability of key components, we were able to uphold production efficiency and quality, underscoring our dedication to operational excellence and commitment to meeting customer expectations. This approach has transformed us into a more robust organization, with improved integration with our suppliers, expanded sources for materials and parts, and fortified supply contracts. Consequently, we are well prepared for future contract awards and poised for continued success.

With our commitment to innovation and operational efficiency, especially through the adoption of automation, we are able to scale our production platforms efficiently,



without a significant increase in resources. This ability to scale efficiently within existing resources forms a robust foundation, empowering us to capitalize on organic growth opportunities and expand our market presence in the dynamic aerospace sector. This optimism is shared by our workforce: I am pleased to note that employee turnover has continued to decline each quarter.

In fiscal 2024, Héroux-Devtek also achieved significant milestones in its Environmental, Social, and Governance (ESG) initiatives. We secured contracts for certified renewable energy across our North American and European facilities, achieving carbon neutrality at our St-Hubert and Laval sites in Québec. Collaborations with partners like IperionX and Endesa have integrated upcycled titanium into our processes and sourced 100% renewable wind-generated electricity, respectively.

SEIZING OPPORTUNITIES IN A DYNAMIC LANDSCAPE

With a stronger supply chain and improved operational efficiency, we are well positioned for active expansion, supported by sustained demand for aircraft from our end customers. In the civil aviation sector, Boeing and Airbus boast record-high backlogs. In the near term, the entry in service of the Falcon 6X, Falcon 10X, and Boeing 777X will all drive higher sales volume for us, as will the ramp-up of the Embraer Praetor and E-2 programs. Our execution on these platforms and our customer relationships position us uniquely to capitalize on new opportunities in this market as well, further enhancing our market presence.

Amidst geopolitical uncertainties and technological advancements, defence spending has surged

to record levels, driving significant demand for Héroux-Devtek's products. We are set to be poised to capitalize on opportunities like the Next Generation Air Dominance (NGAD) and Future Combat Air System (FCAS) programs, enhancing air combat capabilities in collaboration with the US Air Force and Navy and more. Indeed, the demand for our cutting-edge solutions has never been higher, with demand from prime contractors around the world. This new reality is a testament of the trust and recognition our clients place in the quality, safety, and excellence of our products.

POSITIONED TO REACH NEW HEIGHTS

Looking ahead at the opportunities before us, I have never been more confident in Héroux-Devtek's future than I am today. We remain steadfast on continuing to execute our plan and delivering value to our stakeholders. With a clear vision and the support of our dedicated employees, we are poised to reach new heights in the aerospace industry.

I extend my sincere thanks to our teams for their unwavering support and commitment, which have been instrumental in achieving our goals and will continue to be vital as we pursue future opportunities and navigate the complexities of our industry. I would also like to express my sincere gratitude to the Board Members for their steadfast support throughout this extraordinary year.

A handwritten signature in black ink, appearing to read 'M. Brassard'.

MARTIN BRASSARD

President and Chief Executive Officer



HÉROUX-DEVTEK'S ESG COMMITMENTS AND ACHIEVEMENTS IN FISCAL 2024

At Héroux-Devtek, Environmental, Social, and Governance (ESG) principles help guide every decision we make. In 2023 we were proud to release a dedicated ESG report, underscoring our deep commitment to sustainable practices across our North American and European operations. We embed these values into every aspect of our business, from environmental stewardship to community engagement.

As well as securing contracts for high quality, certified, locally produced renewable energy for several of our facilities in Europe and North America, we also completed an important water conservation project in our Longueuil facility. By implementing a closed-loop system, we not only significantly reduced overall water consumption, but this project has also reduced the load on the Municipal wastewater treatment network. This is part of our efforts to save water particularly in water scarce areas or where water conservation brings desirable co-benefits. Additionally, the St-Hubert site was recognized by the Québec government with the “ICI on Recycle +” certification for their effective sustainable waste management practices. These efforts show our commitment to reducing our manufacturing operations’ ecological footprint in line with global sustainability objectives.

Internally, Héroux-Devtek celebrates this commitment to environmental excellence through awards such as this year’s “President’s Award for FY24,” given to our Nottingham, UK site for its improvements in environmental performance and compliance. We host monthly forums with VPs, plant managers as well as our Environmental, Health and Safety officers where the discussion focuses entirely on environmental sustainability and health & safety, recognizing the efforts of employees and their commitment to advancing ESG.

Héroux-Devtek also collaborates with many partners to advance its ESG objectives. A groundbreaking initiative in partnership with a specialized recycling company has already integrated several tons of upcycled titanium into their processes, demonstrating the practical application of titanium in additive manufacturing for the aerospace industry. This project not only minimizes waste but also enhances resource efficiency, embodying the principles of the circular economy.

Another project includes several employees from various plants creating a climate change mural in collaboration with Aéro Montréal that allowed them to explore the fundamental science behind climate change. This is part of a larger initiative that involves

rallying our talented workforce to prepare detailed decarbonization studies at two of our largest plants, focusing on significant reductions in greenhouse gas emissions and efficient use of energy.

Community engagement is another pillar of Héroux-Devtek's ESG efforts, highlighted by its involvement in the "Bal en Bleu" organized by École nationale d'aérotechnique (ÉNA). Héroux-Devtek was proud to play a key role in this fundraiser, which raised \$485,000 to support the next generation of aerospace professionals. Twenty of our employees participated, reinforcing our commitment to fostering industry growth. Additionally, Héroux-Devtek supports the Youth in Mind Foundation in aid of preventing psychological distress among young people in Québec. We co-chaired their golf tournament and helped raise over \$600,000. The Héroux-Devtek United Way fundraiser, driven by the generous contributions of our employees, reached a record of \$225,000 this year. We extend our heartfelt thanks to all our employees for their incredible support. Furthermore, Héroux-Devtek partners with environmental protection organizations like Friends of the Rouge, Nottinghamshire Wildlife Trust, and West Creek, which focus on environmental conservation.

Héroux-Devtek continues to invest in future talent through numerous multi-disciplinary internships, providing practical experience and academic support.

We are also pioneering industrial symbiosis in our Québec plants in collaboration with Comité 21 and other local partners, promoting resource sharing and waste reduction. In addition, our IT practices support the circular economy by selling refurbished old computers and donating the proceeds to Centraide (United Way), demonstrating a dual commitment to social and environmental sustainability.

Héroux-Devtek's governance practices ensure that all our programs adhere to the highest standards, advancing our ESG agenda while setting a benchmark for responsible and sustainable industry practices. We not only strive to fulfill our own governance obligations, but to lead by example, and elevate the aerospace industry as a whole.



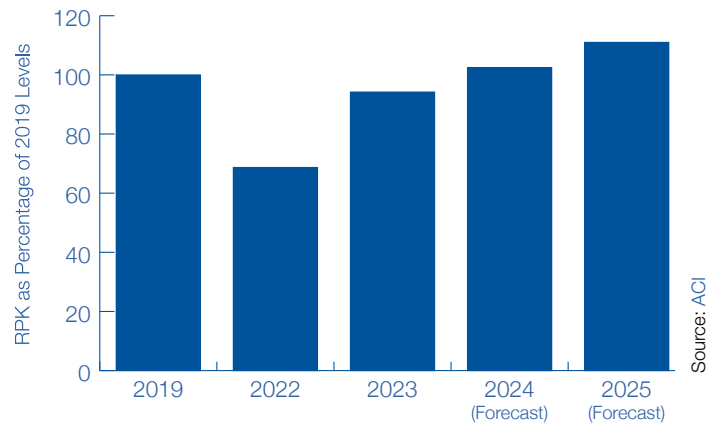
ECONOMIC OUTLOOK

IMPROVED SUPPLY CHAIN CONDITIONS, RECORD AIRCRAFT BACKLOGS, AND INCREASED DEFENCE SPENDING SIGNAL POSITIVE OUTLOOK FOR AIRCRAFT PARTS SUPPLIERS

GLOBAL AIRLINE PASSENGER RECOVERY CONTINUES

The resurgence in passenger travel gained momentum in 2023. Global airline passenger traffic, measured in Revenue Passenger Kilometers (RPK), increased by 36.9% compared to 2022, reaching 94.1% of 2019 levels, according to IATA. Domestic traffic exceeded 2019 levels, while international traffic rose by 41.6% compared to 2022 but remained at 88.6% of 2019 levels, indicating further growth potential. ACI forecasts that 2024 will surpass the pre-COVID 2019 baseline for air travel, with an even stronger year projected for 2025.

Global, Domestic and International
Airline Passenger Traffic



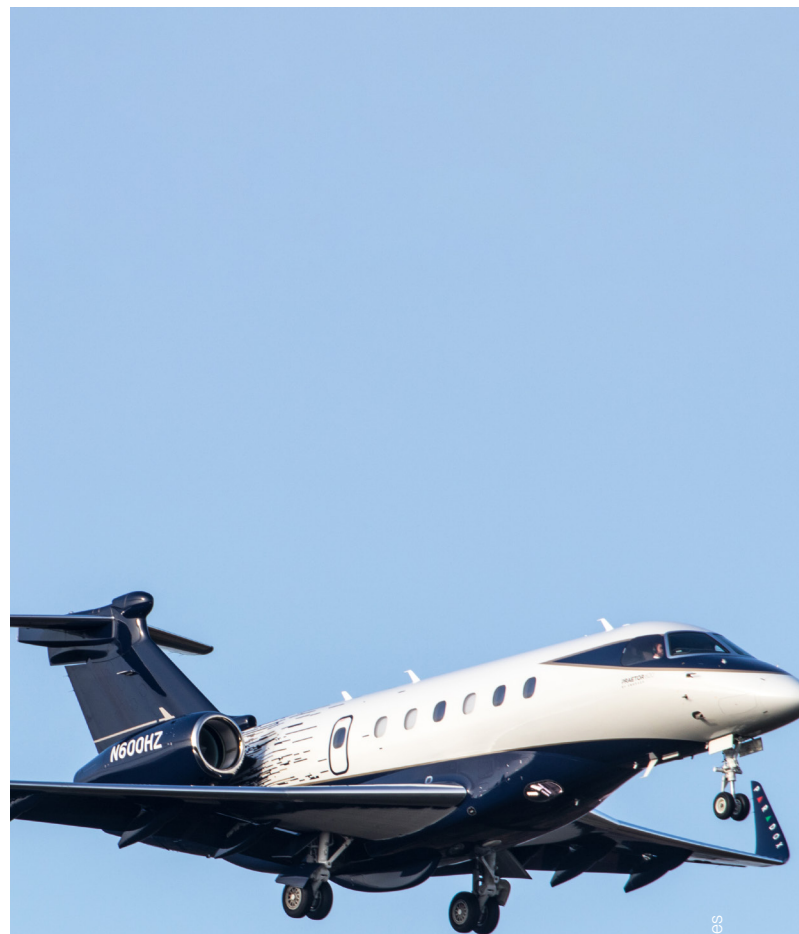
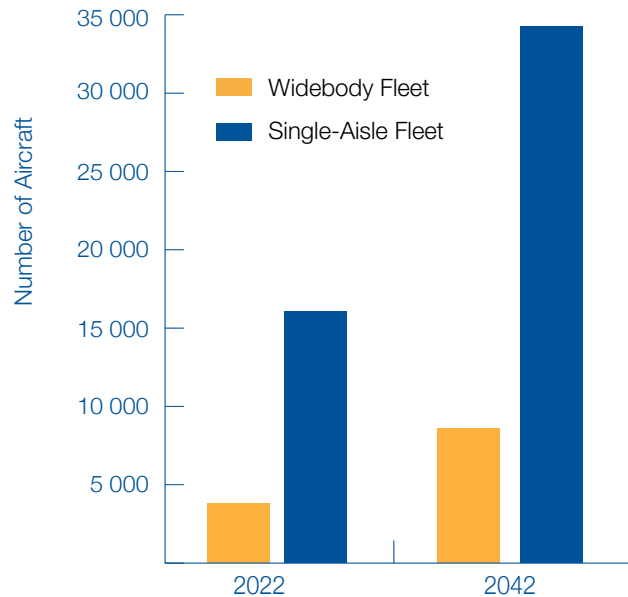
STRONG GROWTH AND BRIGHT PROSPECTS IN THE GLOBAL COMMERCIAL AIRCRAFT MARKET

Strong demand for air travel and the need for new aircraft led to higher order volumes for Airbus and Boeing, resulting in record backlogs. Aircraft deliveries continued to improve, with a highly promising long-term outlook for commercial aircraft. According to Boeing's projections, the global aviation industry will need the delivery of 42,595 new aircraft over the next 20 years to meet the growing demand, including the need to replace existing fleets. Indeed, Boeing's latest Commercial Market Outlook, released in June 2023, predicts a 3.5% annual growth in the global commercial aircraft fleet, reaching 48,600 jets by 2042. The single-aisle fleet is expected to grow by 110.8%, from 16,180 in 2022 to 34,110 in 2042, while the widebody fleet will grow by 127.5%, from 3,780 to 8,600 aircraft.

This promising outlook for commercial aircraft, particularly in the single-aisle market where Héroux-Devtek seeks to strengthen its position, continues to have positive implications for the Corporation. Among the top commercial aviation programs globally, including the Airbus A320, Boeing 737 MAX, Boeing 787, and Airbus A350, Héroux-Devtek proudly supplies build to print landing gear systems for the Boeing 777 and components for the Airbus A350 and Boeing 787. Additionally, the company is well positioned to capitalize on the forthcoming introduction of the Boeing 777X, a highly anticipated widebody expected to enter service in 2025, for which Héroux-Devtek will provide the landing gear.

Beyond the commercial aviation sector, our other end markets also reflect a similarly positive trajectory. Honeywell, in its Global Business Aviation Outlook, has increased its 10-year delivery forecast for business jets to 8,500 units from 2023 to 2032, which is 15% higher than last year's forecast and valued at \$274 billion. Once again, Héroux-Devtek is primed to benefit from this growth in demand as a landing gear supplier for the Falcon 6x and Falcon 10x from Dassault Aviation and the Embraer Praetor. The Falcon 6x was certified and entered service in 2023, while the Falcon 10x is expected to enter service as early as 2027.

Projected Growth in Global Commercial Aircraft Fleet

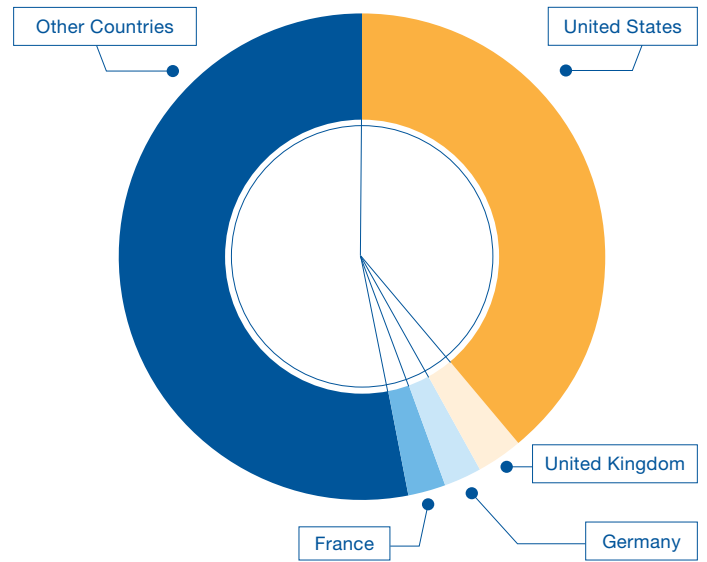


GEOPOLITICAL DYNAMICS AND INCREASED DEFENCE SPENDING

Geopolitical events have led to increased defence spending for the ninth consecutive year, with a significant portion directed towards military aircraft. This demand is supported by programs to upgrade to the latest technologies. Ongoing global programs to develop 6th generation aircraft include the Global Combat Air Programme (UK, Italy, Japan), Future Combat Air System (France, Germany, Spain), and Next Generation Air Dominance in the US. The NGAD program, expected to enter production first among these, includes replacements for the F-22 and F-18, as well as several unmanned aircraft with various mission profiles. This sets the stage for new opportunities for the Corporation.

The recently released “Trends in World Military Expenditure” report by the Stockholm International Peace Research Institute (SIPRI), indicates that global military expenditures grew by 6.8% in 2023, reaching a record US\$2,443 billion. The US accounted for 37% of this spending, totalling \$916 billion, a 2.3% increase from 2022. NATO member states also increased spending, with eleven countries meeting or exceeding the 2% GDP target. Among the top ten spenders, the UK, Germany, and France increased their military expenditures by 7.9%, 9.0%, and 6.5%, respectively.

Military Expenditure of US, UK, Germany and France in 2023



CAPITALIZING ON CURRENT DEFENCE PROGRAMS IN AEROSPACE

Héroux-Devtek continues to be strategically positioned to capitalize on current defence programs, leveraging its extensive experience and capabilities in supplying high-quality aerospace components.

The fighter and attack aircraft segment is experiencing robust growth, driven by aging fleets, global tensions, extensive aircraft utilization, and delayed ramp-ups of programs like the F-35. Héroux-Devtek is well-placed to benefit from this growth as it supplies components for prominent fighter jet programs such as the Lockheed Martin F-35, which is expected to dominate the market with approximately 1,500 deliveries over the next decade. Additionally, the company supports other key fighter programs including the F-18 and Gripen, contributing to a further 400 aircraft in the same period.

In the helicopter sector, Héroux-Devtek supplies systems for vital programs such as the Boeing CH-47 and Sikorsky CH-53K. Despite a projected decline in the market's value over the next decade, production is set to see a slight increase in units, with peak production expected in 2027. The continued demand for older, reliable models like the CH-47 highlights the importance of Héroux-Devtek's role in this market.

The military transport aircraft market, while experiencing a decline, still presents opportunities for sustained production and aftermarket business. Héroux-Devtek supplies systems for critical transport aircraft such as the Airbus C295 and Lockheed Martin C-130, and components for the Airbus A400M. These programs ensure the company's continued relevance and potential for growth in meeting ongoing strategic air mobility needs.



DEMONSTRATED CAPABILITIES OF WINNING CONTRACTS AND SUPPORTING PROGRAMS

ACROSS THE LIFECYCLE OF BOTH CIVIL AND DEFENCE AIRCRAFT

20 - 50+ Years

1 Design & Engineering

Proposal submission / contract award and transition to production with significant investment in development, training and fixed assets

2 Industrialization & LRIP

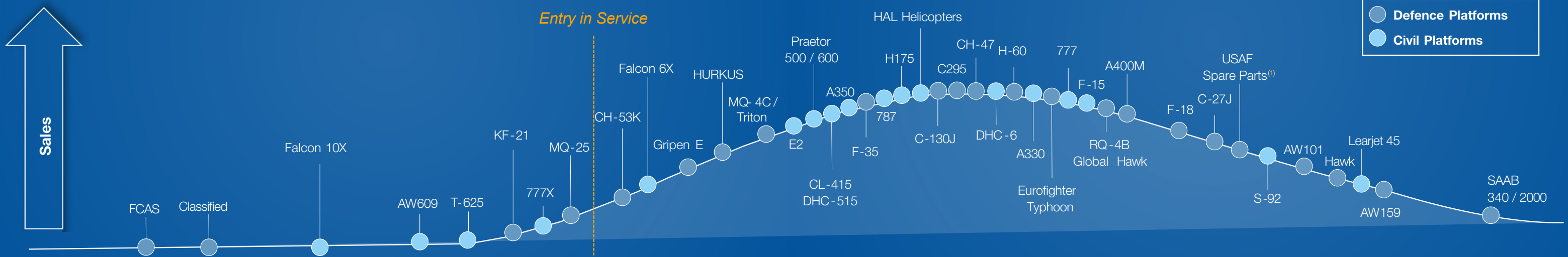
Entry in service with accelerating operating leverage

3 Active Program

Manage OE deliveries and engage aftermarket customers for sustainment solutions

4 End of Production & Continued Fleet Sustainment

Gradual decline in OE deliveries with focus shifting to aftermarket service support with higher margins



EMERGING PROGRAMS

Civil				Defence			
Large	Regional	Business	Helicopter	Fighter	Transport	Helicopter	UAV
• 777X	• n.a.	• Falcon 10X • Falcon 6X	• AW609 • T-625	• KF-21 • Gripen E • HURKUS • FCAS	• n.a.	• CH-53K	• MQ-25 • MQ-4C / Triton

ESTABLISHED PROGRAMS

Civil				Defence			
Large	Regional	Business	Helicopter	Fighter	Transport	Helicopter	UAV
• A350 • 787 • A330 • 777	• E2 • DHC-6 • Saab 340 • Saab 2000 • CL-415 / DHC-515	• Praetor 500 / 600 • Learjet 45	• H175 • S-92	• F-35 • Eurofighter Typhoon • F-15 • F-18 • Hawk	• C-130J • C295 • A400M • C-27J • USAF Spare Parts ⁽¹⁾	• HAL Helicopters • CH-47 • H-60 • AW159 • AW101	• RQ-4B / Global Hawk

1. Includes B-52, B-1B, C-5, KC-135R

BOARD OF DIRECTORS

The Héroux-Devtek Board of Directors consists of ten members with expertise in aerospace and business sectors. Their collective experience and diverse backgrounds provide the management team with strategic insights and informed guidance. This ensures that Héroux-Devtek is well-positioned to navigate the complexities of the market and maintain its leadership in the industry, adhering to high standards of strategic vision and management practices.



GILLES LABBÉ
Executive Chairman of the Board
Non-independent Director since 1985



NATHALIE BOURQUE
Corporate Director and Consultant
Independent Director since 2015
Member of the Audit Committee



MARTIN BRASSARD
President and Chief Executive Officer
Non-independent Director since 2019



TED DI GIORGIO
Corporate Director
Independent Director since 2023
Member of the Audit Committee



DIDIER EVRARD
Corporate Director and Consultant
Independent Director since 2021
Member of the Human Resources and
Corporate Governance Committee



LOUIS MORIN
President, Busrel Inc.
Independent Director since 2008
Chair of the Audit Committee



JAMES J. MORRIS
Corporate Director and Consultant
Independent Director since 2013
Chair of the Human Resources and
Corporate Governance Committee



BRIAN A. ROBBINS
Executive Chairman, Exco
Technologies Limited
Independent Director since 2000
Member of the Audit Committee



ANNIE THABET
Corporate Director
Independent Director since 2021
Member of the Human Resources and
Corporate Governance Committee



BEVERLY WYSE
Corporate Director and Consultant
Lead Director
Independent Director since 2019
Member of the Human Resources
and Corporate Governance Committee

CORPORATE MANAGEMENT TEAM

GILLES LABBÉ

Executive Chairman of the Board

MARTIN BRASSARD

President and Chief Executive Officer

STÉPHANE ARSENAULT

Vice-President and Chief Financial Officer

JEAN GRAVEL

Vice-President, Sales & Programs

STÉPHANE RAINVILLE

Vice-President, Human Resources & Environment

GUY DELISLE

Vice-President, IT

PATRICK GAGNON

Vice-President, Corporate Controller

JEAN-PHILIPPE SANCHE

Vice-President, Legal Affairs

OLIVIER PERRON

Senior Director, Tax & Treasury

SYLVIE HÉBERT

Senior Director, Human Resources

DIEGO VELANDIA

Director, Strategic Supply chain

GUILLAUME LAMY

Director, Financial Reporting

ROBERT CADIEUX

Director, Environment and Health & Safety

OPERATIONS MANAGEMENT TEAM

DOMINIQUE DALLAIRE

Vice-President, Central Region

ANNE-MARIE BERTRAND

Vice-President, Eastern Region

MARC-OLIVIER GAGNON

Vice-President, Engineering
& Product Support

BRIAN DAPP

General Manager, Beaver Aerospace & Defense

DANIEL NORMANDIN

Vice-President, United Kingdom

HUGO LORRAIN

Vice-President, Spain

ISABELLE JEAUGEY (PAUWELS)

Vice-President, Quality Assurance
& Engineering Support (MRB, M&P)

GLOBAL CENTRES OF EXCELLENCE

Héroux-Devtek operates 15 Centres of Excellence across four countries, showcasing its global reach and capacity to adapt to market dynamics. Its international footprint enables it to meet diverse customer demands, offering customized solutions that align with specific requirements. With a dedicated global team, Héroux-Devtek ensures its products and services uphold the highest standards of quality, safety, and performance, positioning itself as a responsive and reliable partner in the aerospace sector.

LAVAL, QUÉBEC

Manufacturing and assembly of small to medium landing gear components and systems

LONGUEUIL, QUÉBEC

Repair and overhaul activities, finishing and assembly of landing gear

MONTRÉAL, QUÉBEC

Surface treatment services

ST-HUBERT, QUÉBEC

Design, engineering, and product support. Technical expertise and state-of-the-art testing facility

NOTTINGHAM, NOTTINGHAMSHIRE

Manufacturing of small to medium landing gear components

RUNCORN, CHESHIRE

Repair and overhaul activities, finishing and assembly of landing gear, product support, testing and design engineering

GETAFE

Design, engineering, assembly and support for landing gear and actuation systems

SEVILLE

Assembly and installation of aircraft components at customer assembly lines

EVERETT, WASHINGTON

Final assembly of Boeing 777/777X landing gear systems

LIVONIA, MICHIGAN

Design and manufacturing of ball screws and electro-mechanical linear actuation systems

SPRINGFIELD, OHIO

Manufacturing of medium to large complex landing gear and titanium components

STRONGSVILLE, OHIO

Finishing and assembly of landing gear

SCARBOROUGH, ONTARIO

Electronic enclosures, heat exchangers and cabinets

CAMBRIDGE, ONTARIO

Manufacturing of ultra-large-scale complex landing gear components

KITCHENER, ONTARIO

Manufacturing of medium to large complex landing gear components

15
Centres of Excellence

4
Countries



SHIPPING

EROUX DEYTEK KITCHEN

CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended
March 31, 2024 and 2023

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MANAGEMENT'S REPORT

The accompanying consolidated financial statements and Management's Discussion and Analysis ("MD&A") of Héroux-Devtek Inc. (the "Corporation") are the responsibility of management and have been reviewed and approved by its Board of Directors. The accompanying consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The MD&A has been prepared in accordance with the requirements of Canadian securities regulators. The consolidated financial statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the consolidated financial statements and MD&A are presented fairly in all material respects. All figures presented in these consolidated financial statements are expressed in thousands of Canadian dollars unless otherwise indicated.

Héroux-Devtek Inc.'s Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed disclosure controls and procedures ("DC&P"), or have caused them to be designed under their supervision, to provide reasonable assurance that material information related to the Corporation has been made known to them and has been properly disclosed or submitted by it under applicable securities legislation has been recorded, processed, summarized and reported within the time periods specified in securities legislation. The Corporation's CEO and CFO have also designed internal controls over financial reporting ("ICFR"), or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS.

Héroux-Devtek Inc.'s CEO and CFO have also evaluated the effectiveness of such ICFR and DC&P as at the end of fiscal year 2024, or caused them to be evaluated under their supervision. As at March 31, 2024, management has concluded that the ICFR and DC&P were effective based on this evaluation, and had no material weaknesses. However, due to their inherent limitation, certain misstatements may not be prevented or detected by ICFR.

Héroux-Devtek Inc.'s CEO and CFO have provided a certification related to Héroux-Devtek Inc.'s annual disclosure documents to the Canadian Securities Administrators in accordance with Regulation 52-109, including the consolidated financial statements and MD&A.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board of Directors and consists entirely of independent and financially literate directors.

The Audit Committee meets periodically with management, as well as with the external auditors, to review the consolidated financial statements, the external auditors' report, MD&A, auditing matters and financial reporting issues, to discuss ICFR and DC&P, and to satisfy itself that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the consolidated financial statements as presented by management, and to review and make recommendations to the Board of Directors with respect to the fees of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the consolidated financial statements and MD&A for issuance to Shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related matters.



Martin Brassard
President and Chief Executive Officer



Stéphane Arsenault, CPA
Vice-President and Chief Financial Officer

May 21, 2024

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF HÉROUX-DEVTEK INC.

Opinion

We have audited the consolidated financial statements of Héroux-Devtek Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at March 31, 2024 and 2023, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2024 and 2023, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addresses the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment of goodwill and other non-financial assets

As at March 31, 2024, the Group had goodwill amounting to \$113.7 million on the consolidated balance sheet. As disclosed in Note 3 – Material Accounting Policies and Note 16 – Goodwill, for each cash generating unit ("CGU"), to which goodwill has been allocated, management assesses at least annually, or at any time if an indicator of impairment exists, whether there has been an impairment loss in the carrying value of the CGU. Management determined the recoverable amount of each CGU under fair value less costs of disposal approach using a market approach, which requires significant estimation on the part of management.

Recoverable amounts are based on management's estimates of key variables including Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA", a non-IFRS measure) forecasts and multiples of recent sector notable transactions. This combined with the significance and sensitivity of other assumptions led us to conclude that the goodwill impairment test for the Group's CGUs is a key audit matter.

How our audit addressed the key audit matter

Our audit procedures included, amongst others, reviewing management's assumptions relating to EBITDA including overall sales projections and sales related to certain significant programs in comparison to publicly available data including analysts' reports covering aerospace and airlines and existing customers' contracts.

With the assistance of our internal valuation specialists, we evaluated the Group's valuation methodology and mathematical accuracy of the calculation. We assessed the reasonableness of the selection and application of the valuation multiples in comparison to externally available information.

We assessed the historical accuracy of management's estimates of EBITDA margin and growth rates by comparing management's past projections to actual and historical performance. We performed sensitivity analyses on the key assumptions such as EBITDA projections, and market multiples to assess their effects on the determination of the recoverable amount.

We also assessed the adequacy of the Group's disclosures included in Note 16 of the accompanying consolidated financial statements in relation to this matter.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yannick Ouimet.

*Ernst & Young LLP*¹

Ernst & Young LLP
Montréal, Québec
May 21, 2024

¹ CPA Auditor, public accountancy permit no. A127424

CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars)

As at March 31,	Notes	2024	2023
Assets	19		
Current assets			
Cash		\$ 9,765	\$ 15,020
Accounts receivable		146,787	120,409
Income tax receivable		579	2,176
Inventories	11	323,350	262,995
Derivative financial instruments	12	2,778	386
Other current assets	13	24,586	22,215
		507,845	423,201
Property, plant and equipment, net	14	200,505	205,490
Finite-life intangible assets, net	15	60,558	53,654
Derivative financial instruments	12	1,840	468
Deferred income tax assets	23	10,337	9,308
Goodwill	16	113,651	112,384
Other long-term assets	13	16,687	16,832
Total assets		\$ 911,423	\$ 821,337
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	17	\$ 142,718	\$ 131,019
Provisions	18	12,165	16,632
Customer advances and progress billings		64,479	58,904
Income tax payable		2,174	466
Derivative financial instruments	12	3,147	5,493
Current portion of long-term debt	19	16,263	11,425
		240,946	223,939
Long-term debt	19	201,764	166,483
Provisions	18	14,218	15,576
Derivative financial instruments	12	2,692	4,895
Deferred income tax liabilities	23	14,178	11,377
Other liabilities	20	7,987	8,148
		481,785	430,418
Shareholders' equity			
Issued capital	21	81,363	82,459
Contributed surplus		8,185	6,739
Accumulated other comprehensive income	22	17,044	12,072
Retained earnings		323,046	289,649
		429,638	390,919
Total liability and shareholders' equity		\$ 911,423	\$ 821,337

Commitments and contingencies (note 25)

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board of Directors



Louis Morin
Director



Gilles Labbé
Director

CONSOLIDATED STATEMENTS OF INCOME

(In thousands of Canadian dollars, except per share data)

For the fiscal years ended March 31,	Notes	2024	2023
Sales	5	\$ 629,767	\$ 543,622
Cost of sales	6, 7, 11	518,695	470,087
Gross profit		111,072	73,535
Selling and administrative expenses	6, 7	55,270	48,556
Gains on extinguishment of a liability and business divestiture	8	(3,961)	(1,219)
Operating income		59,763	26,198
Net financial expenses	9	14,275	7,575
Income before income tax expense		45,488	18,623
Income tax expense	23	7,217	4,798
Net income		\$ 38,271	\$ 13,825
Earnings per share – basic and diluted	10	1.13	0.40

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of Canadian dollars)

For the fiscal years ended March 31,	Notes	2024	2023
Items that may be reclassified to net income			
Gains arising from translation of the financial statements of foreign operations	22	\$ 1,129	\$ 20,363
Cash flow hedges:			
Net gains (losses) on valuation of derivative financial instruments	22	1,760	(21,615)
Net losses on derivative financial instruments transferred to net income		3,386	7,193
Deferred income taxes		(1,359)	3,808
		3,787	(10,614)
Gains (losses) on hedges of net investments in foreign operations			
Deferred income taxes	22	65	(5,229)
		(9)	687
		56	(4,542)
Items that are never reclassified to net income			
Defined benefit pension plans:			
Gains (losses) from remeasurement	24	1,126	(1,709)
Deferred income taxes		(297)	451
		829	(1,258)
Other comprehensive income		\$ 5,801	\$ 3,949
Net income			
Other comprehensive income		5,801	3,949
Comprehensive income		\$ 44,072	\$ 17,774

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of Canadian dollars)

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total Shareholders' equity
Balance as at March 31, 2023		\$82,459	\$6,739	\$12,072	\$289,649	\$ 390,919
Repurchase and cancellation of common shares	21	(1,096)	—	—	(5,703)	(6,799)
Stock-based compensation expense	21	—	1,446	—	—	1,446
Net income		—	—	—	38,271	38,271
Other comprehensive income	22	—	—	4,972	829	5,801
Balance as at March 31, 2024		\$81,363	\$8,185	\$17,044	\$323,046	\$ 429,638

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total Shareholders' equity
Balance as at March 31, 2022		\$82,189	\$5,767	\$ 6,865	\$282,461	\$ 377,282
Common shares issued under the stock option plan	21	1,437	(334)	—	—	1,103
Repurchase and cancellation of common shares	21	(1,167)	—	—	(5,379)	(6,546)
Stock-based compensation expense	21	—	1,306	—	—	1,306
Net income		—	—	—	13,825	13,825
Other comprehensive income	22	—	—	5,207	(1,258)	3,949
Balance as at March 31, 2023		\$82,459	\$6,739	\$12,072	\$289,649	\$ 390,919

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars)

For the fiscal years ended March 31,	Notes	2024	2023
Cash provided by (used for):			
Operating activities			
Net income		\$ 38,271	\$ 13,825
Items not requiring an outlay of cash or not providing cash inflows:			
Amortization expense	14, 15	36,382	36,387
Deferred income taxes	23	83	6,021
Extinguishment of liability	8	(3,961)	—
Net non-cash financial expenses	9	5,222	2,908
Stock-based compensation expense	21	1,446	1,306
		77,443	60,447
Net change in non-cash items	26	(74,510)	(30,387)
Cash flows related to operating activities		2,933	30,060
Investing activities			
Net additions to property, plant and equipment	14	(20,519)	(18,641)
Net increase in finite-life intangible assets	15	(13,915)	(13,137)
Proceeds from a business divestiture		—	3,486
Cash flows related to investing activities		(34,434)	(28,292)
Financing activities			
Proceeds from long-term debt	20	51,894	7,046
Repayment of long-term debt	20	(18,998)	(75,747)
Increase in deferred financing costs	20	—	(245)
Repurchase and cancellation of shares	21	(6,799)	(6,546)
Issuance of common shares under the stock option plan	21	—	1,103
Cash flows related to financing activities		26,097	(74,389)
Effect of changes in exchange rates on cash		149	949
		(5,255)	(71,672)
Change in cash during the year		(5,255)	(71,672)
Cash at beginning of year		15,020	86,692
Cash at end of year		\$ 9,765	\$ 15,020
Interest and income taxes reflected in operating activities:			
Interest paid		\$ 9,483	\$ 6,946
Interest received		\$ 430	\$ 2,279
Income taxes paid		\$ 2,310	\$ 2,636

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended March 31, 2024 and 2023

(In thousands of Canadian dollars, except per share data)

NOTE 1. NATURE OF ACTIVITIES AND CORPORATE INFORMATION

Héroux-Devtek Inc. is incorporated under the laws of Québec. Its head office is domiciled at Complexe St-Charles, 1111 St-Charles Street West, suite 600, West Tower, Longueuil (Québec), Canada. Héroux-Devtek Inc. and its subsidiaries (“Héroux-Devtek” or the “Corporation”) specialize in the design, development, manufacture, repair and overhaul of aircraft landing gear, hydraulic and electromechanical flight control actuators, custom ball screws and fracture-critical components.

The Corporation operates as one reporting segment, which is the Aerospace segment.

The Corporation's common shares are traded on the Toronto Stock Exchange under the symbol "HRX".

NOTE 2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair value, provisions, which are measured based on the best estimates of the expenditures required to settle the obligation and the pension benefit obligations, which are measured at the present value of the defined benefit obligations and reduced by the fair value of plan assets.

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and were approved for issue by the Board of Directors of the Corporation on May 21, 2024.

Basis of consolidation

The consolidated financial statements include the accounts of Héroux-Devtek Inc. and its subsidiaries, all of which are wholly-owned. The principal wholly-owned subsidiaries included in these consolidated financial statements are the following:

Name	Location
Devtek Aerospace Inc.	Canada
HDI Landing Gear USA Inc.	United States
APPH Limited	United Kingdom
Beaver Aerospace & Defense Inc.	United States
Compañía Española de Sistemas Aeronauticos S.A.	Spain

Subsidiaries are consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when the Corporation has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and ability to use its power to affect its returns. The Corporation reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of these three elements of control. Changes in the Corporation's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

The cost of an acquisition is measured as the aggregate of the consideration paid, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Corporation measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's net identifiable assets.

The financial statements of the subsidiaries are prepared for the same reporting period as Héroux-Devtek Inc., using consistent accounting policies. All inter-company transactions and account balances are eliminated in full.

NOTE 3. MATERIAL ACCOUNTING POLICIES

A. Foreign currency

The consolidated financial statements are presented in Canadian dollars. Each entity in the Corporation accounts for transactions in its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

The functional currency of Héroux-Devtek and of the Canadian operations is the Canadian dollar. The functional currency of the U.S. operations is the U.S. dollar, the functional currency of the U.K. operations is the British pound and the functional currency of the Spain operations is the Euro. The functional currency is the currency that is representative of an operation's primary economic environment.

Conversion of transactions and account balances

Transactions denominated in foreign currencies are initially recorded at the functional currency rate of exchange at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange at the reporting date. All differences are included in the consolidated statements of income.

Non-monetary items denominated in foreign currencies are translated at the exchange rate at the date of the transactions.

Translation of financial statements of foreign operations

Assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange at the reporting date and the statements of income are translated at the average exchange rate for the fiscal year. Exchange differences arising from the translation are recognized in other comprehensive income and remain in accumulated other comprehensive income until the disposal of the related net investment, at which time they are recognized in the consolidated statements of income.

B. Inventories

Inventories consist of raw materials (including purchased parts), work-in-progress and finished goods which are valued at the lower of cost (unit cost method except for certain raw materials that are valued at the weighted average cost method) and net realizable value.

Work in process includes raw materials consumed in the manufacturing process, applied direct labor and manufacturing overhead costs.

The unit cost method is the cost method under which the actual production costs are charged to each unit produced and recognized in the consolidated statements of income as the unit is delivered. Estimates of net realizable value are based on the most reliable evidence available of the amount for which the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the reporting period to the extent that such events confirm conditions existing at the end of the reporting period.

C. Property, plant and equipment

Assets acquired

Property, plant and equipment are stated at cost less accumulated amortization and accumulated impairment losses, if any (see F). Such cost may include the cost of replacing a major part of the property, plant and equipment and, in this situation, the carrying amount of the replaced part is derecognized.

Amortization is calculated on a straight-line basis over the useful life of the asset as follows:

- Buildings and leasehold improvements - 5 to 50 years,
- Machinery and equipment - 3 to 25 years,
- Tooling related to specific contracts - based on pre-determined contract quantities, not exceeding the lower of ten years or the useful life. Contract quantities are assessed at the beginning of the production stage considering, among other factors, existing firm orders and options. The Corporation's management conducts quarterly and annual reviews of the contract quantities,
- Standard and general tooling - 3 to 5 years,
- Computer and office equipment - 3 to 5 years.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the net carrying amount of the asset) is included in the consolidated statements of income in the fiscal year the asset is derecognized. The asset's residual value, useful life and method of amortization are reviewed and adjusted annually at year-end, or when warranted by specific circumstances.

The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to section J of this note and *Note 4 - Significant accounting estimates and assumptions* for further information about provisions for asset retirement obligations.

D. Finite-life intangible assets

Finite-life intangible assets include capitalized development costs, customer relationships and contracts and software. They are measured at cost upon initial recognition. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, they are carried at cost less accumulated amortization and impairment losses, if any.

Finite-life intangible assets are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for finite-life intangible assets are reviewed at each fiscal year-end or when warranted by specific circumstances. Changes in the expected useful life or the expected pattern of consumption of future economic benefits associated with finite-life intangible assets are accounted for as changes in accounting estimates.

The gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the net carrying amount of the asset and is recognized in the consolidated statements of income.

Development costs

Development costs of an individual sales contract are capitalized as an intangible asset when the Corporation can demonstrate:

- the feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the development and to use or sell the intangible asset; and,
- the ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

Capitalized development costs (design engineering, manufacturing engineering costs and other related costs) related to sales contracts are amortized based on the expected quantity to be sold. They are presented net of related government assistance and amounts contributed by customers.

The expected quantity to be sold is established based on management's assessment at the beginning of the production stage for each contract, taking into consideration, among other factors, existing firm orders, options, and customer and industry forecasts. Management conducts quarterly reviews of the contract quantities, capitalized development costs and their recoverability.

Following initial recognition of capitalized development costs as an asset, the asset is carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization begins when development is complete and the asset is available for use. Usually, the development phase represents a period of 4 to 7 years. During the period of development, the asset is tested for impairment annually.

Customer relationships

Customer relationships are amortized on a straight-line basis over the estimated useful life of the related customer relationship, which represents up to 15 years.

Software

Software is amortized over 3 to 7 years.

E. Business combinations and goodwill

Business combinations are accounted for using the acquisition method.

The cost of a business combination is measured as the fair value of assets given, equity instruments issued and liabilities assumed at the date of acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed are measured initially at fair value at the date of acquisition. Acquisition-related costs associated with the business combinations are expensed as incurred.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses, if any. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Corporation's cash generating units ("CGU") or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

F. Impairment of goodwill and other non-financial assets

Goodwill is tested for impairment annually on March 31 or when warranted by specific circumstances. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. A CGU's recoverable amount is the higher of a CGU's fair value less costs of disposal ("FVLCD") and its value in use.

Non-financial assets other than goodwill are tested for impairment should events or circumstances indicate that their carrying amount may not be recoverable, as measured by comparing their carrying amount to their recoverable amount, which corresponds to the higher of the FVLCD and the value in use of the non-financial asset or CGU. For non-financial assets other than goodwill, a previously recognized impairment loss is reversed if there has been a change in the estimated recoverable amount since the last impairment loss was recognized. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated amortization, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized in the consolidated statements of income.

G. Financial assets

Initial recognition

At initial recognition, financial assets are classified either as financial assets at fair value through profit or loss ("FVTPL"), measured at amortized cost ("AC") or fair value through other comprehensive income ("FVTOCI"). The classification is based on two criteria: the Corporation's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion"). The Corporation's financial assets are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion are classified and subsequently measured at amortized cost. They consist of cash, accounts receivable and certain other current and long-term assets.

When financial assets are recognized initially, they are measured at fair value, plus in the case of a financial asset other than FVTPL, the directly attributable transaction costs. Purchases and sales of financial assets are recognized on the transaction date, which is the date that the Corporation commits to purchase or sell the assets.

FVTPL

FVTPL financial assets include certain derivative financial instruments, except those that are designated as hedging instruments and classified as FVTOCI as a result. FVTPL are carried at fair value with gains and losses recognized in the consolidated statements of income. The Corporation assesses whether embedded derivative financial instruments are required to be separated from host contracts when the Corporation first becomes party to the contract.

AC

AC financial assets are non-derivatives with fixed or determinable payments not quoted in an active market. AC are mainly comprised of accounts receivable and certain other current and long-term assets. AC are carried at amortized cost using the effective interest rate method. An allowance for doubtful accounts is recorded when an account receivable become impaired. Also, under the forward-looking expected credit loss ("ECL") approach, all financial assets, except for those measured at FVTPL, are subject to review for impairment at least at each reporting date. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Corporation expects to receive. The shortfall is then discounted at an approximation of the asset's original effective interest rate.

The typical payment term is between 30 and 60 days and the Corporation considers a financial asset in default when collection of an account receivable is 30 days past its contractual terms. The Corporation may also consider a financial asset to be in default when internal or external information indicates that the Corporation is unlikely to receive the outstanding contractual amounts in full. Overdue accounts receivable are considered to be at a higher credit risk, and management monitors these receivables closely in order to assess whether ultimate collection is at risk. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows, which generally occurs if the account receivable is 90 days past due unless the Corporation has reasonable and supportable information to demonstrate that a more lagging criterion is more appropriate.

For accounts receivable, the Corporation has applied the simplified approach and has calculated ECLs based on lifetime expected credit losses taking into consideration historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. If in a subsequent year, the amount of the estimated impairment loss increases or decreases due to an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the carrying value of the financial assets. If a past write-off is later recovered, the recovery is recognized in the consolidated statements of income.

FVTOCI

Forward foreign exchange contracts are carried at fair value and the change in the fair value of the effective portion of hedges is recognized in other comprehensive income, while the ineffective portion is recognized in the consolidated statements of income, if any.

The Corporation assesses at each reporting date whether any financial asset is impaired.

H. Financial liabilities

Liabilities at fair value

Financial liabilities classified at FVTPL are comprised of derivative financial instruments, except those that are designated as FVTOCI. They are carried at fair value with gains and losses recognized in the consolidated statements of income. Gains and losses on FVTOCI are recognized in other comprehensive income.

AC

All debts, accounts payable, accrued liabilities, and certain other liabilities are initially recognized at fair value less directly attributable transaction costs when they have not been designated as FVTPL.

After initial recognition, they are subsequently measured at amortized cost using the effective interest method.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation underlying the liability is discharged, cancelled or has expired.

I. Derivative financial instruments and hedges

Derivative financial instruments

The Corporation uses derivative financial instruments such as forward foreign exchange contracts and equity swap agreements to hedge its risks associated with foreign currency and other price fluctuations. Such derivative financial instruments are initially recognized and subsequently measured at fair value. Derivative financial instruments are carried as financial assets when the fair value is favorable and as financial liabilities when the fair value is unfavorable.

Cash flow hedges

For the purpose of hedge accounting, all hedges are classified as cash flow hedges except for hedges of net investments in foreign operations (see below). Hedging exposure to variability in cash flows is attributable to a risk associated with a recognized liability or a highly probable forecast transaction in foreign currency.

At the inception of a hedge relationship, the Corporation formally designates and documents the hedge relationship to which the Corporation wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed quarterly to determine that they actually have been highly effective throughout the designated periods.

The change in the fair value of the effective portion of hedges is recognized in other comprehensive income, while the ineffective portion is recognized in the consolidated statements of income. Amounts recognized in other comprehensive income are transferred to the consolidated statements of income when the hedged transaction affects income, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. In the event that the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in accumulated other comprehensive income are transferred to the consolidated statements of income.

Hedges of net investments in foreign operations

When the Corporation designates certain long-term debt as a hedge of its net investments in foreign operations, the portion of gains or losses from the hedging item that is determined to be an effective hedge is recognized in other comprehensive income, while the ineffective portion is recorded in the consolidated statements of income. The amounts recognized in other comprehensive income are reclassified in the consolidated statements of income upon disposal of the related net investments.

J. Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) 1) as a result of a past event; 2) when it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation; and, 3) when a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is accounted for in the consolidated statements of income, net of any reimbursement.

If the known expected settlement date exceeds twelve months from the date of recognition, provisions are discounted using a current pre-tax interest rate that reflects the risks specific to the liability, when the effect is material. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financial expense. Provisions are reviewed periodically and adjusted as appropriate.

Onerous contracts

These represent contracts in progress or firm customer purchase orders in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs are the cost of fulfilling the contracts and comprise all costs related directly to the contract and include incremental costs such as direct labour and material and allocation of other costs such as depreciation.

Asset retirement obligations

The Corporation's asset retirement obligations mainly consist of environmental rehabilitation costs related to one of the Corporation's manufacturing sites in Canada. The present value of these obligations is measured in the year in which they are identified and represents a reasonable estimate of the present value of the costs associated with the legal obligations for future rehabilitation. These asset retirement costs are capitalized as part of the property, plant and equipment and amortized over the relevant assets' useful lives. Changes in estimates of these costs, accretion and changes in the relevant discount rate are recognized in the consolidated statement of income in the period in which they occur.

Product warranty

This provision covers the cost of remedying known or anticipated defects on products under terms of warranties.

Litigations restructuring and other provisions

Due to the nature of its business activities including the purchase or sale of businesses, the Corporation is exposed to the risks of technical and business litigations. On the basis of information at its disposal at the reporting date, the Corporation carried out a review of the financial risks to which the Corporation could be exposed. The recorded provision covers the estimated risks associated with these litigations.

Restructuring provisions are recognized when the Corporation has put in place a detailed restructuring plan which has been communicated in sufficient detail to create a constructive obligation. Restructuring provisions include only costs directly related to the restructuring plan, and are measured at the best estimate of the amount required to settle the Corporation's obligations.

K. Progress billings

Progress billings represent amounts received from customers for costs incurred by the Corporation. These amounts are reversed to sales at such time as the related units are delivered and billed to customers.

L. Pensions and other retirement benefits

The Corporation has defined contribution pension plans as well as funded and unfunded defined benefit pension plans that provide pension benefits to its employees. The current and past service costs of these pension plans are recorded within the cost of sales and selling and administrative expenses under "Employee costs" in the consolidated statements of income while the administrative costs related to these pension plans are included in selling and administrative expenses. The net interest income or expense on the net surplus or deficit is recorded in financial expenses.

The actuarial determination of the defined benefit obligations for pensions uses the projected unit credit method which incorporates management's best estimate of future salary levels, when applicable, other cost escalations, retirement ages of employees, discount rates and other actuarial factors.

The pension and other retirement benefit plans liabilities included in other liabilities in the consolidated balance sheets represent the present value of the defined benefit obligations reduced by the fair value of plan assets.

The pension and other retirement benefit plans assets included in other long term assets in the consolidated balance sheets represent the fair value of plan assets reduced by the present value of the defined benefit obligations.

The pension and other retirement benefit plan assets are measured at the lower of the surplus in the defined benefit plan and the asset ceiling.

Remeasurements on defined benefit plans include actuarial gains and losses, changes in the effect of the asset ceiling and the return on plan assets, excluding the amount included in net interest on the net defined liability or assets. Remeasurements are charged or credited to other comprehensive income in the period in which they arise.

Past service costs arising from the plan amendments are recognized in full immediately in the consolidated statements of income.

M. Share-based payments

Stock option plan

The Corporation has a stock option plan in which options to purchase common shares are issued to officers and key employees. The Corporation uses a binomial valuation model to determine the fair value of stock options when granted. The resulting fair value is amortized to income over their earned period using the graded amortization method. The related compensation expense is included in the consolidated statement of income and its counterpart is accounted for in contributed surplus.

Deferred share unit ("DSU") plan

The Corporation has a DSU plan under which rights are issued to its non-employee directors. The DSU enables the participants to receive compensation at the end of their mandate as a member of the Board of Directors, representing a cash payment equal to the quoted price of the Corporation's common share multiplied by the number of vested DSUs.

These DSUs are expensed on an earned basis, their value is equal to that of the underlying shares and is remeasured at each reporting period. Each director can also elect, each fiscal year, to have up to 100% of his director's annual retainer fees converted into DSUs. These DSUs vest over a one-year period. The related compensation expense is included in the consolidated statement of income and its counterpart is accounted for in accounts payable and accrued liabilities until the DSUs are exercised and paid at the end of each director's mandate.

Performance share unit ("PSU") plan

The Corporation has a PSU plan as part of the incentive plan for management and key employees. PSUs generally vest over a period of three years. The PSU enables the participants to receive compensation at the expiry or termination date representing a cash amount equal to the quoted price of the Corporation's common share for each PSU vested, conditional on the achievement of certain financial targets.

PSUs are expensed on an earned basis, their value is equal to that of the underlying shares and is remeasured at each reporting period. The related compensation expense is included in the consolidated statement of income and its counterpart is accounted for in accounts payable and accrued liabilities until the PSUs are paid or cancelled at the expiry or termination date.

Restricted share unit ("RSU") plan

The Corporation has a RSU plan as part of the incentive plan for management and key employees. RSUs vest on the third anniversary of the grant and are payable to employees who are still employed by the Corporation on the payment date. RSUs enable the participants to receive compensation at the expiry or termination date representing a cash amount equal to the quoted price of the Corporation's common share for each RSU vested.

RSUs are expensed on an earned basis their value is equal to that of the underlying shares and is remeasured at each reporting period. The related compensation expense is included in the consolidated statement of income and its counterpart is accounted for in accounts payable and accrued liabilities until the RSUs are paid or canceled at the expiry or termination date.

N. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated discounts. Intercompany sales are eliminated. Revenue from the sale of goods is recognized in a manner that depicts the transfer of promised goods to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation, which is generally achieved upon the delivery of the products.

Revenues from the sale of new or overhauled aerospace components are considered a single performance obligation and are recognized at the point in time when the customer has obtained control of the component and the Corporation has satisfied its performance obligation. Generally, these conditions are met upon delivery of the goods.

O. Government assistance

Government assistance, which mainly includes investment and other tax credits and grants, is recognized when there is reasonable assurance that it will be received and all related conditions will be complied with. When the government assistance relates to an expense item, it is recognized as a reduction of expense over the period necessary to match the government assistance on a systematic basis to the costs that it is intended to subsidize. Where government assistance relates to an asset, it is deducted from the cost of the related asset.

Forgivable loans from governmental authorities are accounted for as government assistance when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.

Benefits derived from government authority loans with below-market interest rates are measured at the inception of the loans as the difference between the cash received and the amount at which the loans are initially recognized in the consolidated balance sheet. At initial recognition, the fair value of a loan with a below-market rate of interest is estimated at the present value of all future cash disbursements, discounted using a prevailing market rate of interest for a similar instrument with a similar credit rating.

After initial recognition, the loan is accounted for as a financial liability measured at amortized cost using the effective interest method. Repayments are mainly based on the Corporations sales growth, or sales of specific programs. Assumptions underlying expected sales are reviewed at least annually, and are used to derive expected repayment schedules. When expected repayment schedule changes, as a result of changes in sales growth forecasts, the Corporation recalculates the carrying value of the loan using the original effective interest rate, with the corresponding gain or loss accounted for in financial expenses.

P. Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognized directly in shareholders' equity is recognized in shareholders' equity and not in the consolidated statements of income or in the consolidated statements of comprehensive income.

Deferred income tax

Deferred income tax is provided for using the liability method on temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are recognized for all deductible and taxable temporary differences, except:

- where the deferred income tax asset or liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income or loss nor taxable income or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all other deductible temporary differences, carry forward or unused tax credits and unused tax losses to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date. Deferred income tax assets and liabilities are measured at the income tax rates that are expected to apply to the fiscal year when the asset is realized or the liability is settled, based on income tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Deferred income tax relating to items recognized directly in shareholders' equity is recognized directly in shareholders' equity and not in the consolidated statements of income or in the consolidated statements of comprehensive income. Deferred income tax assets and liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority. All deferred income tax assets and liabilities are classified as non-current.

Sales tax

Sales, expenses and assets are recognized net of the amount of sales tax, except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authorities, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of sales tax included, if applicable.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of other current assets or accounts payable and accrued liabilities in the consolidated balance sheet.

Q. Earnings per share

Basic and diluted earnings per share are computed based on net income attributable to equity holders of the Corporation, using the weighted-average number of common shares outstanding during the year. The calculation of diluted earnings per share takes into consideration the exercise of all dilutive elements. This method assumes that the proceeds from the exercise of in-the-money stock options would be used to purchase common shares at the average market price during the year.

R. Leases

Right-of-use assets and lease liabilities are recognized at the lease commencement date. Certain exemptions apply for short-term leases and leases of low-value assets.

Right-of-use of assets

Right-of-use assets are measured at cost. The cost is based on the initial amount of the lease liability plus initial direct costs incurred and estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located adjusted for any lease payments made at or before the commencement date, less any lease incentives received, if any.

The cost of right-of-use assets are periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurement of the lease liability. Right-of-use assets are amortized to the lesser of the useful life or the lease term using the straight-line method as this reflects the expected pattern of consumption of the future economic benefits. The lease term includes the renewal option only if it is reasonably certain to exercise that option. Lease terms range from 1 to 20 years for buildings and 1 to 7 years for machinery, equipment and tooling.

Lease liabilities

At the commencement date of the lease, the Corporation recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments mainly include fixed payments less any lease incentives receivable and the exercise price of a purchase option reasonably certain to be exercised. Variable lease payments that do not depend on an index or a rate are recognized as an expense in the period during which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Corporation uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of whether the underlying asset will be purchased.

The Corporation determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. After the commencement date, the Corporation reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

NOTE 4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Corporation's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require material adjustments to the Corporation's financial results or the carrying amount of assets or liabilities.

Key estimates and assumptions are as follows:

A. Impairment of goodwill and other non-financial assets

Impairment exists when the carrying amount of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal ("FVLCD") and its value in use. The FVLCD calculation is based on a market approach, which is based on multiples of recent sector notable transactions applied to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA", a non-IFRS measure), less incremental costs of disposal. The recoverable amount is most sensitive to the multiple selected and revenue and EBITDA margin forecasts in determining future forecasted cash flows as further explained in note 16.

B. Deferred income tax assets

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Corporation establishes provisions based on reasonable estimates for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred income tax assets are recognized for unused tax losses and deductible temporary differences to the extent it is probable that taxable income will be available against which the losses and deductible temporary differences can be utilized. Management's judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

C. Pensions and other retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. In determining appropriate discount rates, management considers the interest rates of high-quality corporate bonds. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The significant assumptions used to determine the defined benefit obligations and the pension expense, including a sensitivity analysis, are further explained in note 24.

D. Provisions

The Corporation has recorded provisions to cover cost exposures that could materialize in future periods. In determining the amount of the provisions, assumptions and estimates are made in relation to discount rates and the expected cost to settle such liabilities.

E. Government authorities loans

The Corporation has outstanding loans with government authorities with variable repayment schedules. Annual repayments of these loans generally vary based on the Corporation's sales growth. In order to account for the present value of these loans under the effective interest method, or for government assistance upon initial recognition, management must estimate sales growth over the expected duration of the loan. These forecasts are used to determine the expected repayment schedules. In determining these amounts, management must rely on market rates of interest and assumptions such as, but not limited to, current and future order intake, industry order backlogs, Original Equipment Manufacturer ("OEM") production rates, expected economic conditions, the stability of foreign exchange rates and the Corporation's ability to deliver on key contract initiatives.

NOTE 5. SALES

The amount of sales recognized in the following sectors was as follow for fiscal year:

	2024	2023
Defence	\$ 386,400	\$ 372,942
Civil	243,367	170,680
Total sales	\$ 629,767	\$ 543,622

Geographic sales based on the customers' location are detailed as follows, for fiscal year:

	2024	2023
United States	\$ 358,522	\$ 333,914
Canada	36,156	24,308
United Kingdom	49,615	33,863
Spain	50,917	41,560
Rest of Europe	68,064	68,463
Other countries	66,493	41,514
	\$ 629,767	\$ 543,622

NOTE 6. GOVERNMENT ASSISTANCE

Government assistance deducted from the cost of the related assets or recognized as a reduction of expenses, was as follows, for fiscal year:

	2024	2023
Finite-life intangible assets (note 15)	\$ 1,450	\$ 1,010
Property, plant and equipment (note 14)	69	78
Cost of sales and, selling and administrative expenses	8,496	5,656

NOTE 7. COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES

The main components of these expenses were as follows, for fiscal year:

	2024	2023
Raw materials and purchased parts	\$ 230,775	\$ 203,379
Employee costs	215,872	191,723
Amortization of property, plant and equipment and finite-life intangible assets (notes 14, 15)	36,382	36,387
Supplies and small tools	24,979	22,737
Maintenance and machinery repair	17,892	16,104
Others	48,065	48,313
	\$ 573,965	\$ 518,643
Included in cost of sales, selling and administrative expenses:		
Foreign exchange losses upon conversion of net monetary items	61	105

NOTE 8. GAINS ON EXTINGUISHMENT OF A LIABILITY AND BUSINESS DIVESTITURE

Gains on extinguishment of a liability and business divestiture are items whose separate disclosure may be useful to users of the financial statements in interpreting the Corporation's financial performance. These items do not share the same function as those included in other financial statement captions and generally are not as indicative of the Corporation's past or future operating performance.

	2024	2023
Extinguishment of liability	\$ (3,961)	\$ —
Business divestiture	—	(1,219)
	\$ (3,961)	\$ (1,219)

Extinguishment of liability

During the financial year, a provision of \$3,961 related to a previous business acquisition was extinguished due to the expiration of the indemnification agreement.

Business divestiture

The commercial objectives included in the agreement for the fiscal 2022 sale of the Corporation's Bolton operations to Ontic Engineering & Manufacturing UK Limited were achieved in September 2022, resulting in a net gain of \$1,219 in fiscal 2023.

NOTE 9. NET FINANCIAL EXPENSES

Net financial expenses comprise the following, for fiscal year:

	2024	2023
Interest accretion on governmental authorities loans	\$ 3,125	\$ 3,140
Revision of governmental authorities loans repayment estimates (note 19)	602	(1,207)
Interest on defined benefit obligations (note 24)	(164)	(194)
Interest on leases (note 19)	891	840
Amortization of deferred financing costs	469	475
Other net non-cash financial expense (income)	299	(146)
Net non-cash financial expenses	5,222	2,908
Interest expense on long-term debt	9,483	6,946
Interest income on cash	(430)	(2,279)
	\$ 14,275	\$ 7,575

NOTE 10. EARNINGS PER SHARE

The following table sets forth the elements used to compute basic and diluted earnings per share, for fiscal year:

	2024	2023
Weighted-average number of common shares outstanding	33,834,158	34,384,106
Effect of dilutive stock options of the Corporation	155,633	100,857
Weighted-average number of common diluted shares outstanding	33,989,791	34,484,963
Options excluded from diluted earnings per share calculation ⁽¹⁾	952,000	1,288,000

⁽¹⁾ Excluded from diluted earnings per share calculation due to anti-dilutive impact.

NOTE 11. INVENTORIES

As at	March 31, 2024	March 31, 2023
Raw materials and purchased parts	\$ 159,634	\$ 130,618
Work in progress	159,726	129,625
Finished goods	3,990	2,752
	\$ 323,350	\$ 262,995

An amount of \$395,187 of inventory was recognized as cost of sales during the fiscal year 2024 (\$357,105 for fiscal 2023).

Reserves related to inventories are as follows, for fiscal year:

	2024	2023
Reserves recognized as cost of sales	\$ 7,117	\$ 3,599
Reversal of prior-period reserves	3,980	2,317

The reversal of prior-period reserves is mainly from the revaluation, at each reporting date, of the net realizable value of inventories based on related sales contracts, future demand and production costs. The revaluation takes into consideration the variations in selling price and number of units to deliver and also reductions in production costs resulting from improvements in manufacturing processes.

NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS

As at	March 31, 2024	March 31, 2023
Current Assets		
Forward foreign exchange contracts	\$ 638	\$ 386
Equity swap agreement	2,140	—
	\$ 2,778	\$ 386
Long-term Assets		
Forward foreign exchange contracts	\$ 1,840	\$ 468
	\$ 1,840	\$ 468
Current Liabilities		
Forward foreign exchange contracts	\$ 3,147	\$ 5,493
	\$ 3,147	\$ 5,493
Long-term Liabilities		
Forward foreign exchange contracts	\$ 2,692	\$ 4,771
Equity swap agreement	—	124
	\$ 2,692	\$ 4,895

NOTE 13. OTHER ASSETS

As at	March 31, 2024	March 31, 2023
Investment and other tax credits receivable	\$ 11,996	\$ 9,907
Prepaid expenses	6,138	5,917
Sales tax receivable	4,127	4,504
Others	2,325	1,887
Other current assets	\$ 24,586	\$ 22,215
Investment and other tax credits receivable	2,272	2,514
Long-term receivable	8,920	9,611
Net pension plan asset (note 24)	5,495	4,707
Other long-term assets	\$ 16,687	\$ 16,832

NOTE 14. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and leasehold improvements	Machinery, equipment and tooling	Other	Construction in progress	Total
Cost:						
As at March 31, 2023	\$ 16,403	\$ 136,773	\$ 296,346	\$ 24,288	\$ 3,570	\$ 477,380
Additions	—	5,793	13,213	2,859	2,135	24,000
Government assistance (note 6)	—	(42)	(27)	—	—	(69)
Retirements and disposals	—	(277)	(945)	(1,018)	—	(2,240)
Effect of changes in exchange rates	(33)	118	1,086	51	15	1,237
As at March 31, 2024	\$ 16,370	\$ 142,365	\$ 309,673	\$ 26,180	\$ 5,720	\$ 500,308
Accumulated amortization:						
As at March 31, 2023	\$ —	\$ 56,160	\$ 199,160	\$ 16,570	\$ —	\$ 271,890
Amortization expense	—	6,576	20,604	2,282	—	29,462
Retirements and disposals	—	(277)	(906)	(1,017)	—	(2,200)
Effect of changes in exchange rates	—	19	523	109	—	651
As at March 31, 2024	\$ —	\$ 62,478	\$ 219,381	\$ 17,944	\$ —	\$ 299,803
Net book value as at March 31, 2024	\$ 16,370	\$ 79,887	\$ 90,292	\$ 8,236	\$ 5,720	\$ 200,505

	Land	Buildings and leasehold improvements	Machinery, equipment and tooling	Other	Construction in progress	Total
Cost:						
As at March 31, 2022	\$ 15,758	\$ 128,144	\$ 280,581	\$ 20,782	\$ 2,443	\$ 447,708
Additions	—	3,280	11,749	3,868	1,101	19,998
Government assistance (note 6)	—	—	—	(78)	—	(78)
Retirements and disposals	—	(103)	—	(982)	—	(1,085)
Effect of changes in exchange rates	645	5,452	4,016	698	26	10,837
As at March 31, 2023	\$ 16,403	\$ 136,773	\$ 296,346	\$ 24,288	\$ 3,570	\$ 477,380
Accumulated amortization:						
As at March 31, 2022	\$ —	\$ 47,618	\$ 176,382	\$ 14,870	\$ —	\$ 238,870
Amortization expense	—	6,416	19,301	2,117	—	27,834
Retirements and disposals	—	(101)	—	(984)	—	(1,085)
Effect of changes in exchange rates	—	2,227	3,477	567	—	6,271
As at March 31, 2023	\$ —	\$ 56,160	\$ 199,160	\$ 16,570	\$ —	\$ 271,890
Net book value as at March 31, 2023	\$ 16,403	\$ 80,613	\$ 97,186	\$ 7,718	\$ 3,570	\$ 205,490

Right of use assets:

The following tables reconciles the right-of-use assets for the Corporation as at March 31, 2024 and 2023 that are included in Property, Plant and Equipment:

	Building and leasehold improvements	Machinery, equipment and tooling	Other	Total
Cost:				
As at March 31, 2023	\$ 16,813	\$ 46,022	\$ 2,883	\$ 65,718
Additions	1,718	565	477	2,760
Effect of changes in exchange rates	70	(127)	12	(45)
As at March 31, 2024	\$ 18,601	\$ 46,460	\$ 3,372	\$ 68,433
Accumulated amortization:				
As at March 31, 2023	\$ 7,541	\$ 31,174	\$ 1,347	\$ 40,062
Amortization expense	1,308	3,647	713	5,668
Effect of changes in exchange rates	(33)	55	(7)	15
As at March 31, 2024	\$ 8,816	\$ 34,876	\$ 2,053	\$ 45,745
Net book value as at March 31, 2024	\$ 9,785	\$ 11,584	\$ 1,319	\$ 22,688

	Building and leasehold improvements	Machinery, equipment and tooling	Other	Total
Cost:				
As at March 31, 2022	\$ 17,121	\$ 45,942	\$ 2,277	\$ 65,340
Additions	606	73	470	1,149
Effect of changes in exchange rates	(914)	7	136	(771)
As at March 31, 2023	\$ 16,813	\$ 46,022	\$ 2,883	\$ 65,718
Accumulated amortization:				
As at March 31, 2022	\$ 6,212	\$ 27,734	\$ 1,432	\$ 35,378
Amortization expense	1,179	4,037	682	5,898
Effect of changes in exchange rates	150	(597)	(767)	(1,214)
As at March 31, 2023	\$ 7,541	\$ 31,174	\$ 1,347	\$ 40,062
Net book value as at March 31, 2023	\$ 9,272	\$ 14,848	\$ 1,536	\$ 25,656

Additions to property, plant and equipment shown above can be reconciled as follows, for fiscal year:

	2024	2023
Gross additions	\$ 24,000	\$ 19,998
Government assistance (note 6)	(69)	(78)
Additions to property, plant and equipment	23,931	19,920
Non-cash additions to right-of-use assets	(2,760)	(1,149)
Variation in unpaid additions included in Accounts payable and accrued liabilities at year-end	(652)	(130)
Additions, as per statements of cash flows	\$ 20,519	\$ 18,641

As at March 31, 2024, the cost of property, plant and equipment still in use and fully depreciated is \$162,562 (\$131,388 as at March 31, 2023).

NOTE 15. FINITE-LIFE INTANGIBLE ASSETS

	Capitalized development costs	Software	Customer relationships and contracts	Total
Cost:				
As at March 31, 2023	\$ 37,525	\$ 23,192	\$ 69,155	\$ 129,872
Additions	13,130	5,670	—	18,800
Customers funding	(3,435)	—	—	(3,435)
Government assistance (note 6)	(1,254)	(196)	—	(1,450)
Retirements and disposals	—	(498)	—	(498)
Effect of changes in exchange rates	1	55	285	341
As at March 31, 2024	\$ 45,967	\$ 28,223	\$ 69,440	\$ 143,630
Accumulated amortization:				
As at March 31, 2023	\$ 16,654	\$ 18,209	\$ 41,355	\$ 76,218
Amortization expense	1,845	1,550	3,525	6,920
Retirements and disposals	—	(498)	—	(498)
Effect of changes in exchange rates	—	58	374	432
As at March 31, 2024	\$ 18,499	\$ 19,319	\$ 45,254	\$ 83,072
Net book value as at March 31, 2024	\$ 27,468	\$ 8,904	\$ 24,186	\$ 60,558

	Capitalized development costs	Software	Customer relationships and contracts	Total
Cost:				
As at March 31, 2022	\$ 26,337	\$ 20,889	\$ 65,539	\$ 112,765
Additions	15,056	1,750	—	16,806
Customers funding	(2,858)	—	—	(2,858)
Government assistance (note 6)	(1,010)	—	—	(1,010)
Retirements and disposals	—	(349)	—	(349)
Effect of changes in exchange rates	—	902	3,616	4,518
As at March 31, 2023	\$ 37,525	\$ 23,192	\$ 69,155	\$ 129,872
Accumulated amortization:				
As at March 31, 2022	\$ 14,464	\$ 16,450	\$ 34,531	\$ 65,445
Amortization expense	2,190	1,298	5,065	8,553
Retirements and disposals	—	(349)	—	(349)
Effect of changes in exchange rates	—	810	1,759	2,569
As at March 31, 2023	\$ 16,654	\$ 18,209	\$ 41,355	\$ 76,218
Net book value as at March 31, 2023	\$ 20,871	\$ 4,983	\$ 27,800	\$ 53,654

NOTE 16. GOODWILL

Goodwill varied as follows, during fiscal year:

	2024	2023
Balance at beginning of the year	\$ 112,384	\$ 108,200
Effect of changes in exchange rates	1,267	4,184
Balance, end of year	\$ 113,651	\$ 112,384

As at March 31, 2024, the Corporation revised its assessment of CGUs for impairment testing purposes. Where as at March 31, 2023 CGUs were identified as North America, U.K. and Spain, the increasing integration of the Corporation's business have led these to be combined into a single CGU, Aerospace components.

Goodwill allocated to the CGUs is as follows, for the fiscal year ended:

	March 31, 2024	March 31, 2023
North America	\$ —	\$ 23,902
U.K.	—	59,943
Spain	—	28,539
Aerospace Components	113,651	—
	\$ 113,651	\$ 112,384

For the annual impairment test and at the date of the change in CGUs, the Corporation used FVLCD with a market approach, which is a change in approach compared to the test as at March 31, 2023 (value in use approach). This transition reflects the conviction that the latter method more accurately captures the true value of the Corporation. The approach is based on the Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA", a non-IFRS measure) using a valuation multiple derived from recent sector notable transactions ranging from 11.3x to 17x, (Level 3), to determine the fair value. Management established a budget for the year ending March 31, 2025, which was approved by the Board of Directors. The projections were prepared based on both historical data, existing backlog, expected booking of new orders and future trends anticipated by the Corporation. A valuation multiple was then applied to the projected EBITDA to determine the recoverable amount. The Corporation concluded that the recoverable amount of the CGUs subject to the annual test was greater than their carrying amount. As such, no impairment charge was recorded for the year ended March 31, 2024.

The key assumptions for the FVLCD method include estimated revenue and EBITDA margin forecasts and the valuation multiple. No reasonably possible change in the key assumptions used in determining the recoverable amount would result in any impairment of goodwill.

NOTE 17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	March 31, 2024	March 31, 2023
Trade payables ⁽¹⁾	\$ 87,042	\$ 89,521
Accrued liabilities ⁽²⁾	51,669	38,155
Other	4,007	3,343
Accounts payable and accrued liabilities	\$ 142,718	\$ 131,019

⁽¹⁾ Trade payables are normally settled on 30 to 60 day terms.

⁽²⁾ Accrued liabilities mainly include employee-related liabilities.

NOTE 18. PROVISIONS

	Onerous contracts	Asset retirement obligations	Product warranty	Others (note 25)	Total
As at March 31, 2023	\$ 6,701	\$ 6,000	\$ 9,323	\$ 10,184	\$ 32,208
Arising during the year	428	—	2,069	2,742	5,239
Accretion expense	—	220	—	—	220
Utilized	(1,101)	(29)	(1,589)	(244)	(2,963)
Reversed (note 8)	(170)	—	(1,862)	(6,342)	(8,374)
Discount rate adjustment	—	82	(39)	(25)	18
Effect of changes in exchange rates	(3)	—	17	21	35
As at March 31, 2024	\$ 5,855	\$ 6,273	\$ 7,919	\$ 6,336	\$ 26,383
Less: current portion	1,670	—	5,491	5,004	12,165
Long-term portion	\$ 4,185	\$ 6,273	\$ 2,428	\$ 1,332	\$ 14,218

NOTE 19. LONG-TERM DEBT

As at	March 31, 2024	March 31, 2023
Senior Secured Syndicated Revolving Credit Facility ("Revolving Facility")	\$ 40,999	\$ —
Governmental authorities loans	88,642	89,032
Unsecured Subordinated Term Loan Facility ("Term Loan")	75,000	75,000
Lease liabilities	14,987	15,946
Deferred financing costs, net	(1,601)	(2,070)
	218,027	177,908
Less: current portion	16,263	11,425
Long-term debt	\$ 201,764	\$ 166,483

Senior Secured Syndicated Revolving Credit Facility

The Revolving Facility has a limit of \$250,000, of which \$40,999 is drawn as at March 31, 2024, and bears interest at SOFR + 1.1% representing an effective rate of 6.4% (SOFR + 1.1% representing 5.9% as at March 31, 2023). It includes an accordion feature to increase the limit by an additional \$200,000, subject to lenders' approval, and is secured by essentially all assets of the Corporation and its subsidiaries. The Revolving Facility will mature in June 2027.

Governmental authorities loans

Governmental authorities loans represent government assistance for the purchase of certain equipment or tooling, for the modernization or additions to the Corporation's facilities or for research and development costs. They were granted as incentives under Canadian federal and provincial or Spanish industrial programs to promote industry development.

These loans have varying terms governing the timing and amount to be repaid. Repayments, when not on a fixed schedule, are either based on sales of specific programs or the growth in sales of all or certain of Héroux-Devtek's product lines and bear no or below-market interest rates.

They are measured at a discounted value using a corresponding market rate of interest each time they are received, and the related discount is accreted to income using the effective interest rate method and included in net financial expenses.

Assumptions underlying loan repayments are reviewed at least annually. As at March 31, 2024, the Corporation revised the estimated repayment schedule of its governmental authorities loans, taking into account updated assumptions and data. This resulted in a non-cash loss of \$602 (gain of \$1,207 in fiscal 2023), which was included in net financial expenses (see note 9).

The effective interest rates for these loans were in the range of 0.0% to 6.6% as at March 31, 2024 (0.0% to 6.6% as at March 31, 2023).

Unsecured Subordinated Term Loan Facility

The Corporation has a Term Loan Facility provided by the Fonds de solidarité FTQ for an amount of up to \$75,000. As at March 31, 2024 and 2023, this facility was fully drawn.

The Term Loan Facility matures in September 2028, bears interest at a rate of 5.0%, and the Corporation will have the option to make early repayments as of September 2024, subject to certain fees.

Lease liabilities

The incremental borrowing rate applied to lease liabilities recognized as at March 31, 2024 ranged between 2.1% and 13.9% for leases (2.1% and 11.0% as at March 31, 2023), maturing from April 2024 to May 2039.

The following table presents the reconciliation between the opening and the closing balances of the lease liabilities:

As at	March 31, 2024	March 31, 2023
Balance at the beginning of the year	\$ 15,946	\$ 20,497
Additions	2,760	1,149
Lease payments	(4,654)	(6,703)
Interest expense on lease liabilities (note 9)	891	840
Effect of changes in exchange rates	44	163
	\$ 14,987	\$ 15,946

The expense related to short-term leases and low-value assets leases during the years ended March 31, 2024 and 2023 was immaterial.

The following table presents reconciliation between the opening and closing balances for the Long-term debt.

	March 31, 2024	March 31, 2023
Long-term debt, at beginning of the fiscal year	\$ 177,908	\$ 236,526
Increase in long-term debt	54,654	8,195
Repayment of long-term debt	(18,998)	(75,747)
Amortization of deferred financing costs (note 9)	469	475
Increase in deferred financing cost	—	(245)
Interest accretion and adjustments on governmental authorities loans (note 9)	3,727	1,933
Interest accretion in lease liability (note 9)	891	840
Effects of fluctuations in exchange rates	(624)	5,931
Long-term debt, at end of the fiscal year	\$ 218,027	\$ 177,908

Covenants

Long-term debt is subject to certain general and financial covenants related, among others, indebtedness, cash flows and equity of the Corporation and/or certain of its subsidiaries. The Corporation complied with its covenants as at March 31, 2024.

NOTE 20. OTHER LIABILITIES

As at	March 31, 2024	March 31, 2023
Progress billings	\$ 6,804	\$ 5,617
Net defined benefit obligations (note 24)	566	953
Other	617	1,578
Other Liabilities	\$ 7,987	\$ 8,148

NOTE 21. ISSUED CAPITAL

Authorized	
Voting common shares, without par value	Unlimited
First preferred shares, issuable in series, without par value	Unlimited
Second preferred shares, issuable in series, without par value	Unlimited

No preferred shares are outstanding.

Variations in common shares issued and fully paid were as follows, for fiscal year:

	2024		2023	
	Number	Issued capital	Number	Issued capital
Balance at the beginning of the year	34,107,073	\$ 82,459	34,486,776	\$ 82,189
Issued for cash on exercise of stock options	—	—	103,000	1,437
Repurchase and cancellation	(453,503)	(1,096)	(482,703)	(1,167)
Balance at the end of the year	33,653,570	\$ 81,363	34,107,073	\$ 82,459

On August 8, 2023, the Corporation announced a Normal Course Issuer Bid ("NCIB") for the purchase for cancellation of up to 1,791,984 common shares on the open market through the TSX or alternative trading facilities. The NCIB began on August 10, 2023, and will end on August 9, 2024, or on such earlier date when the Company has either acquired the maximum number of common shares allowable under the NCIB or decided not to make any further purchases under it.

As at March 31, 2024, the Corporation has purchased and cancelled 453,503 common shares for a cash consideration of \$6,799 representing a weighted average price of \$14.99 per share (482,703 common shares for a cash consideration of \$6,546 representing a weighted average price of \$13.56 per share as at March 31, 2023). The \$5,703 excess of purchase price over the carrying value was charged to retained earnings.

Stock-based compensation

A. Stock option plan

The Corporation grants stock options at a subscription price representing the average closing price of the Corporation's common shares on the Toronto Stock Exchange for the five trading days preceding the grant date. Options granted under the plan mainly vest over a period of four years. The options are exercisable over a period not exceeding seven years after the grant date.

Variations in stock options outstanding and related compensation expense were as follows, for fiscal year:

	2024		2023	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Balance at the beginning of the year	1,635,500	\$ 14.59	1,503,750	\$ 14.19
Granted	370,000	14.07	247,000	15.42
Exercised	—	—	(103,000)	10.71
Expired	(96,000)	15.01	(2,250)	10.71
Cancelled / forfeited	(14,000)	14.46	(10,000)	15.42
Balance at the end of the year	1,895,500	\$ 14.47	1,635,500	\$ 14.59

Stock option expense for fiscal 2024 was \$1,446 (\$1,306 in 2023). The weighted-average share price at the date of exercise of stock options in fiscal 2023 was \$15.85.

Details of stock options granted were as follows, for fiscal year:

	2024	2023
Number of stock options granted	370,000	247,000
Weighted average fair value per stock option	\$ 5.70	\$ 6.12
Total fair value	\$ 2,109	\$ 1,512
Exercise price	\$ 14.07	\$ 15.42
Expected life	5.5 years	5.5 years
Expected volatility	37 %	36 %
Expected forfeiture	1.4 %	1.3 %
Expected dividend distribution	None	None
Compounded risk-free interest rate	2.9 %	2.8 %

As at March 31, 2024, 1,895,500 stock options were issued and outstanding, detailed as follows:

Exercise price	Outstanding options			Vested options	
	Number	Weighted-average years to maturity	Weighted-average exercise price	Number	Weighted-average exercise price
\$9.83	347,500	3.16	\$9.83	260,250	\$9.83
\$14.07 to \$15.42	829,000	4.40	14.69	294,250	15.03
\$16.03 to \$17.45	719,000	2.42	16.45	624,500	16.30
	1,895,500	3.42	\$14.47	1,179,000	\$14.55

As at March 31, 2024, 2,808,257 common shares are reserved for issuance upon exercise of stock options, of which 2,122,662 remained to be issued, compared to 2,122,662 as at March 31, 2023.

B. Deferred Share Unit ("DSU"), Performance Share Unit ("PSU") and Restricted Share Unit ("RSU") plans

For the fiscal year ended March 31, movements in outstanding PSUs, DSUs and RSUs were as follows:

	2024			2023		
	PSUs	DSUs	RSUs	PSUs	DSUs	RSUs
<i>In number units</i>						
Opening balance	304,850	256,406	—	285,350	199,471	—
Issued	162,431	52,566	88,350	129,300	56,935	—
Settled	(101,100)	—	—	(98,200)	—	—
Cancelled/Forfeited	(12,000)	—	(2,950)	(11,600)	—	—
Closing balance	354,181	308,972	85,400	304,850	256,406	—
Fair value of vested outstanding units, end of periods	\$ 4,648	\$ 5,481	\$ 431	\$ 3,185	\$ 3,242	\$ —

The compensation expense with respect to the PSU, DSU and RSU plans amounted to \$5,669 during the fiscal year ended March 31, 2024 (expense of \$293 during the fiscal year ended March 31, 2023).

NOTE 22. ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in accumulated other comprehensive income were as follows:

	Exchange differences on conversion of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at March 31, 2023	\$ 23,368	\$ (5,977)	\$ (5,319)	\$ 12,072
Other comprehensive income	1,129	3,787	56	4,972
Balance as at March 31, 2024	\$ 24,497	\$ (2,190)	\$ (5,263)	\$ 17,044

	Exchange differences on conversion of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at March 31, 2022	\$ 3,005	\$ 4,637	\$ (777)	\$ 6,865
Other comprehensive income (loss)	20,363	(10,614)	(4,542)	5,207
Balance as at March 31, 2023	\$ 23,368	\$ (5,977)	\$ (5,319)	\$ 12,072

NOTE 23. INCOME TAXES

Income tax expense is as follows, for fiscal year:

	2024	2023
Consolidated statements of income		
Current income tax expense (recovery)	\$ 7,134	\$ (1,223)
Deferred income tax expense	83	6,021
Income tax expense reported in the consolidated statements of income	\$ 7,217	\$ 4,798
Consolidated statements of changes in shareholders' equity		
Expense (recovery) related to items charged or credited directly to retained earnings	\$ 297	\$ (451)
Expense (recovery) related to items charged or credited directly to other comprehensive income	1,368	(4,495)
Income tax expense reported directly in shareholders' equity	\$ 1,665	\$ (4,946)

The computation of income tax expense is as follows, for fiscal year:

	2024	2023
Income taxes at combined Federal and Provincial statutory rates of 26.5% (26.4% in 2023)	\$ 12,054	\$ 4,935
Income tax rate differential – foreign subsidiaries	(588)	(152)
Permanent differences	(803)	183
(Recognition) write-down of deferred tax asset	(2,798)	656
Other items	(648)	(824)
Income tax expense	\$ 7,217	\$ 4,798

Significant deferred income tax assets and liabilities arising from the effect of temporary differences are as follows:

As at	March 31, 2024	March 31, 2023
Deferred income tax assets		
Non-deductible reserves	\$ 8,772	\$ 6,605
Inventories	6,409	5,984
Receivables	157	150
Derivative financial instruments	807	2,323
Lease liabilities	2,272	1,908
Governmental authorities loans	1,572	665
Deferred tax benefits from tax losses and deductible expenses carried forward	11,023	14,854
Total deferred income tax assets	\$ 31,012	\$ 32,489
Deferred income tax liabilities		
Investment and other tax credits	(2,096)	(830)
Property, plant and equipment	(24,843)	(25,030)
Customer relationships and contracts	(7,914)	(8,698)
Total deferred income tax liabilities	\$ (34,853)	\$ (34,558)
Net deferred income tax liabilities	\$ (3,841)	\$ (2,069)

The net deferred income tax assets are included under the following captions on the consolidated balance sheets:

As at	March 31, 2024	March 31, 2023
Deferred income tax assets	\$ 10,337	\$ 9,308
Deferred income tax liabilities	(14,178)	(11,377)
Net deferred income tax liabilities	\$ (3,841)	\$ (2,069)

As at March 31, 2024, net deferred income tax assets of \$10,680 were recognized (\$12,015 as at March 31, 2023) in jurisdictions that incurred losses in prior fiscal years. Based upon the level of historical taxable income and projections for future taxable income, the Corporation's management believes it is probable that the Corporation will realize the full benefits of these deductible temporary differences and non-capital losses carried forward.

As at March 31, 2024, non-capital losses carried forward or other temporary differences for which related deferred income tax assets have not been recognized in the consolidated financial statements amounted to \$20,270 (\$36,919 as at March 31, 2023).

The Corporation had the following non-capital losses and undeducted interest expenses available for carry-forward:

As at	March 31, 2024	March 31, 2023
Canada	\$ 9,217	\$ 14,364
United States	68,916	83,017
United Kingdom	13,606	12,431
Spain	—	3,765
	\$ 91,739	\$ 113,577

As at March 31, 2024, deferred income tax assets of \$11,037 and deferred income tax liabilities of \$4,654 are expected to be recovered or settled in less than one year.

Deferred income tax is not recognized on the unremitted earnings of subsidiaries where the Corporation is able to control the timing of the remittance and it is probable that there will be no remittance in the foreseeable future. As at March 31, 2024, the temporary differences associated with investments in subsidiaries for which a deferred income tax liability has not been recognized aggregate to \$29,595 (\$23,840 in 2023).

NOTE 24. PENSION AND OTHER RETIREMENT BENEFIT PLANS

Description of benefit plans

The Corporation has funded and unfunded defined benefit pension plans as well as defined contribution pension plans that provide pension benefits to its employees. Retirement benefits provided by the defined benefit pension plans are based on either years of service and final amount, years of service and final average salary, or set out by individual agreements.

Benefits provided by the post-retirement benefit plans are set out by individual agreements, which mostly provide for life insurance coverage and health care benefits. Since their amount is not significant, they are not included in the figures below.

Total cash payments

For fiscal year 2024, total cash payments for employee future benefits, consisting of cash contributed by the Corporation to its funded defined benefit pension plans and cash payments directly to beneficiaries for its unfunded defined benefit pension plans amounted to \$804 (\$1,028 in 2023) while the cash contributed to its defined contribution plans amounted to \$3,948 (\$3,746 in 2023).

Defined benefit plans

The Corporation measures the fair value of plan assets for accounting purposes as at March 31 of each year while its defined benefit obligations are valued as at each plan actuarial valuation date projected to March 31 for one plan, and the valuation is made as at March 31 for others.

The defined benefit plans expose the Corporation to actuarial risks such as:

- Life expectancy risk
 - The present value of defined benefit obligations is calculated in part by reference to the estimated life expectancy of plan members. An increase in life expectancy increases the Corporation's obligations.
- Currency risk
 - As a significant portion of plan assets are invested in foreign equities, an increase in the value of the Canadian dollar in comparison to the denomination of these foreign equities would result in an increase in the Corporation's obligations.
- Interest rate risk
 - A decrease in market rates of interest would decrease the discount rate used to calculate the present value of defined benefit obligations, thus increasing it. This would be partially offset by the resulting increase in the value of the plans' bond holdings.

- Investment risk
 - Investment risk is the risk that the return on plan assets is lower than the corporate bond interest rate used to determine the discount rate. Currently, the plans have an investment mix of 44% in equity funds, 31% in debt securities, 13% annuity buy-in insurance contracts, 8% in real estate & infrastructure and 4% in other funds. Due to the long-term nature of the plans' defined benefit obligations, the Corporation considers it appropriate that a reasonable portion of the plans' assets is invested in equity securities and other funds in order to generate additional long-term return on plan assets.

The reconciliation of the present value of the defined benefit obligations and the fair value of plan assets to the amounts recognized in the consolidated balance sheets is as follows:

As at	March 31, 2024	March 31, 2023
Present value of defined benefit obligations of funded plans	\$ 59,895	\$ 58,966
Fair value of plan assets	73,203	68,980
Irrecoverable surplus (effect of asset ceiling)	(8,039)	(5,876)
Funded status of the plans – surplus	5,269	4,138
Present value of defined benefit obligations of unfunded plan	(340)	(384)
Net pension plan asset	\$ 4,929	\$ 3,754
Amount recognized in other long-term assets (note 13)	5,495	4,707
Amount recognized in other long-term liabilities (note 20)	(566)	(953)

Defined benefit pension expense recognized in the consolidated statements of income is as follows, for fiscal year:

	2024	2023
Current service cost	\$ 555	\$ 791
Interest on net defined benefit obligations (note 9)	(164)	(194)
Administrative cost	439	293
Defined benefit pension expense recognized in the consolidated statements of income	\$ 830	\$ 890

The total amount recognized in other comprehensive income is as follows, for fiscal year:

	2024	2023
Remeasurements		
Gains from changes in financial assumptions	\$ 181	\$ 6,565
Experience (losses) gains	211	(166)
Return on plan assets, excluding interest income on plan assets	2,613	(2,232)
Change in irrecoverable surplus other than interest	(1,879)	(5,876)
Other comprehensive income	\$ 1,126	\$ (1,709)

The actual return on the fair value of plan assets is as follows, for fiscal year:

	2024	2023
Actual return on the fair value of plan assets	\$ 5,898	\$ 422

The variation in present value of the defined benefit obligations were as follows, for fiscal year:

As at	March 31, 2024	March 31, 2023
Defined benefit obligations at the beginning of the year	\$ 59,350	\$ 64,916
Current service cost	555	791
Interest expense	2,850	2,460
Contributions by plans' participants	755	699
Gains from changes in financial assumptions	(181)	(6,565)
Experience gains	(211)	166
Benefits paid	(2,883)	(3,117)
Defined benefit obligations at the end of the year	\$ 60,235	\$ 59,350

The fair value of plan assets is as follows:

As at	March 31, 2024	March 31, 2023
Fair value of plans' assets at the beginning of the year	\$ 68,980	\$ 70,241
Interest income on plans' assets	3,285	2,654
Return on plans' assets, excluding interest income on plans' assets	2,613	(2,232)
Contributions by the employer	804	1,028
Contributions by plans' participants	755	699
Benefits paid	(2,795)	(3,117)
Administrative costs	(439)	(293)
Fair value of plans' assets at the end of the year	\$ 73,203	\$ 68,980

The plans' assets consist of:

As at	March 31, 2024	March 31, 2023
Equity securities	44%	52%
Debt securities	31%	30%
Annuity buy-in insurance contracts	13%	14%
Real estate & infrastructure	8%	—%
Other	4%	4%
Total	100%	100%

Significant assumptions

The significant weighted-average assumptions used at the reporting date are as follows, for fiscal year:

	2024	2023
Defined benefit obligations as at March 31:		
Discount rate	4.88%	4.85%
Rate of compensation increase	N/A	3.50%
Average life expectancies based on a pension at 65 years of age:		
Male, 45 years of age at reporting date	87	87
Female, 45 years of age at reporting date	89	89
Male, 65 years of age at reporting date	86	86
Female, 65 years of age at reporting date	88	88

The following table summarizes the effects of the changes in these actuarial assumptions on the defined benefit obligations for the fiscal year ended and as at March 31, 2024:

Increase (Decrease)	Defined benefit obligations
	%
Discount rate	
Increase of 0.5%	(4.6)
Decrease of 0.5%	5.2
Average life expectancies	
Increase of 1 year	2.1
Decrease of 1 year	(2.1)

Corporation's pension benefits future cash flows

The cash contributions expected to be made to these plans in fiscal year 2025 amount to \$858.

The duration of the defined benefit obligations at March 31, 2024 is 10.6 years (10.5 years in 2023). The expected maturity of undiscounted pension benefits for the Unionized Pension Plan is presented as follows:

As at	March 31, 2024	March 31, 2023
Less than a year	\$ 2,637	\$ 2,399
Between 1-2 years	2,653	2,563
Between 2-5 years	9,114	8,616
Between 5-10 years	17,464	16,962
Total	\$ 31,868	\$ 30,540

Defined contribution pension plans

The defined contribution pension plans' costs are as follows, for fiscal year:

	2024	2023
Defined contribution pension plan costs	\$ 3,948	\$ 3,746

NOTE 25. COMMITMENTS AND CONTINGENCIES

Commitments

The Corporation has commitments for outstanding purchases orders relating to machinery and equipment which have not been delivered yet to the Corporation's facilities. The minimum payments over the next five years are as follows:

	2025	2025 and thereafter
Building, machinery and equipment acquisition commitments	\$ 4,930	\$ —

Guarantees

The Corporation executes agreements that provide for indemnification and guarantees to counterparties in transactions such as business dispositions and the sale of assets.

These indemnification undertakings and guarantees may require the Corporation to compensate the counterparties for costs or losses incurred as a result of various events including breaches of representations and warranties, intellectual property right infringement, loss of or damage to property, environmental liabilities, changes in or in the interpretation of laws and regulations (including tax legislation), valuation differences or as a result of litigation that may be suffered by the counterparties.

In the sale of all or a part of a business or assets, in addition to possible indemnification relating to failure to perform covenants and breach of representations and warranties, the Corporation may have to indemnify against claims related to past conduct of the business. The nature of these indemnification agreements prevents the Corporation from estimating the maximum potential liability that could be required under guarantees, since these events have not occurred yet.

Letters of credit

As at March 31, 2024, the Corporation has outstanding letters of credit amounting to \$18,818 (\$19,024 in 2023).

Contingencies

The Corporation is involved in litigations and claims in the normal course of business. Management is of the opinion that any resulting settlements would not materially affect the Corporation's consolidated financial position and operating results.

NOTE 26. NET CHANGE IN NON-CASH ITEMS

The net change in non-cash items is detailed as follows, for fiscal year:

	2024	2023
Accounts receivable	\$ (26,053)	\$ (18,003)
Inventories	(59,296)	(55,323)
Other assets	219	3,955
Accounts payable and accrued liabilities	5,948	19,558
Provisions	(2,198)	(5,394)
Customer advances and progress billings	5,565	27,658
Other liabilities	1,305	(2,838)
	\$ (74,510)	\$ (30,387)

NOTE 27. GEOGRAPHIC INFORMATION

The geographic segmentation of the Corporation's assets is as follows:

As at	March 31, 2024				
	Canada	U.S.	U.K.	Spain	Total
Property, plant and equipment, net	\$ 88,826	\$ 61,766	\$ 16,893	\$ 33,020	\$ 200,505
Finite-life intangible assets, net	28,758	2,038	814	28,948	60,558
Goodwill	5,404	18,525	61,331	28,391	113,651
As at	March 31, 2023				
	Canada	U.S.	U.K.	Spain	Total
Property, plant and equipment, net	\$ 89,479	\$ 64,161	\$ 16,449	\$ 35,401	\$ 205,490
Finite-life intangible assets, net	18,236	4,544	925	29,949	53,654
Goodwill	5,404	18,502	59,941	28,537	112,384

NOTE 28. EXECUTIVE COMPENSATION

Key management includes directors (executive and non-executive) and members of the Executive Committee. The executive compensation expense to key management is as follows, for fiscal year:

	2024	2023
Short-term benefits and other benefits	\$ 5,642	\$ 3,438
Pension and other post-retirement benefits	77	74
Share-based compensation	2,418	1,958
	\$ 8,137	\$ 5,470

NOTE 29. FINANCIAL INSTRUMENTS

Fair value hierarchy

Financial assets and financial liabilities measured at fair value in the consolidated balance sheets are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and

Level 3: unobservable inputs for the asset or liability.

The classifications of financial instruments as well as their carrying amounts and fair values are summarized as follows:

As at	March 31, 2024			March 31, 2023		
	Fair value hierarchy	Carrying amount	Fair Value	Fair value hierarchy	Carrying amount	Fair Value
Financial assets						
Cash	Level 1	\$ 9,765	\$ 9,765	Level 1	\$ 15,020	\$ 15,020
Derivative financial instruments	Level 2	4,618	4,618	Level 2	854	854
		\$ 14,383	\$ 14,383		\$ 15,874	\$ 15,874
Financial liabilities						
Derivative financial instruments	Level 2	\$ 5,839	\$ 5,839	Level 2	\$ 10,388	\$ 10,388
Long-term debt, including current portion	Level 2	219,628	215,183	Level 2	179,978	178,367
		\$ 225,467	\$ 221,022		\$ 190,366	\$ 188,755

Derivative financial instruments – The fair value of derivative financial instruments recognized in the consolidated balance sheets has been determined using the Corporation’s valuation models and compared to the fair value information provided by the financial institutions using exchange rates or interest rates quoted in the active market and adjusted for the credit risk added by the financial institution. These models project future cash flows and discount the future amounts to a present value using the contractual terms of the derivative financial instruments and factors observable in external markets data, such as foreign exchange rates.

Long-term debt – The fair value of long-term debt has been determined by calculating the present value of long-term debt using the rate that would be negotiated under the economic conditions at year-end.

Accounts receivable and Account payable and accrued liabilities – Given the short-term nature of these financial instruments, the Corporation has determined that their carrying amount approximates fair value.

NOTE 30. FINANCIAL RISK MANAGEMENT

The Corporation is exposed primarily to market risk, credit and credit concentration risks, and liquidity risk as a result of holding financial instruments.

Market Risk

Market risk is the risk of fluctuations in the fair value or future cash flows of financial instruments following changes in market prices, whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The Corporation is primarily exposed to the following market risks:

Foreign exchange risk

The Corporation is exposed to risks resulting from foreign currency fluctuations when transacting in a currency other than the functional currency of a business unit. This primarily occurs in the case of transactions denominated in U.S. Dollars carried out in the Corporation’s operations in Canada, Spain and the United Kingdom. In an effort to mitigate these exposures, the Corporation makes use of derivative contracts.

The Corporation’s foreign exchange policy requires the hedging of 50% to 100% of the identified foreign currency exposure, after accounting for any natural hedge arising from opposing cash flows of the same foreign currency.

The forward foreign currency contracts outstanding are as follows:

As at	March 31, 2024		March 31, 2023	
	Notional amount ⁽¹⁾	Average rate	Notional amount ⁽¹⁾	Average rate
Currencies (sold/bought)				
USD/CAD				
Less than 1 year	\$ 161,188	1.33	\$ 162,867	1.32
Between 1 and 3 years	113,330	1.32	125,196	1.30
Between 3 and 5 years	34,850	1.33	29,408	1.33
USD/GBP				
Less than 1 year	11,762	0.81	15,055	0.78
Between 1 and 3 years	24,839	0.81	23,627	0.81
Between 3 and 5 years	14,258	0.81	26,081	0.81
USD/EUR				
Less than 1 year	13,498	0.92	10,885	0.87
Between 1 and 3 years	13,254	0.91	13,517	0.92
Between 3 and 5 years	—	—	6,616	0.90
EUR/USD				
Less than 1 year	6,707	0.97	—	—
Between 1 and 3 years	10,158	0.96	—	—
EUR/CAD				
Less than 1 year	—	—	25,079	0.72
Total	\$ 403,844		\$ 438,331	

⁽¹⁾ Exchange rates as at the end of respective periods were used to translate amounts in foreign currencies.

As at March 31, 2024, a 1% strengthening of the Canadian dollar over foreign currencies, while all other variables would remain fixed, would have impacted the consolidated net income and the other comprehensive income as follows:

	U.S. dollar impact	British pound impact	Euro impact
Decrease in net income	\$ (373)	\$ (120)	\$ (97)
Increase (decrease) in other comprehensive income (loss)	1,072	(1,818)	(709)

The foreign exchange rate sensitivity analysis shown above is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments including the forward foreign exchange contracts as at the consolidated balance sheet date.

Interest-rate risk

The Corporation is exposed to interest rate fluctuations primarily due to the variable interest rate on its Revolving Facility (see note 19). In addition, interest rate fluctuations could also have an impact on the interest income earned on Héroux-Devtek's cash deposits.

The Corporation's interest rate policy requires maintaining an appropriate mix of fixed and variable interest rates debt to mitigate the net impact of fluctuating interest rates. Management as such may use derivatives to maintain a fixed debt ratio of between 40% and 100% of long-term debt, excluding lease liabilities and government loans.

Other price risk

The Corporation's net income is exposed to fluctuations of its share price through its DSUs, PSUs and RSUs (see note 21). In order to mitigate this exposure, the Corporation has entered into an equity swap agreement with a financial institution.

Pursuant to this agreement, upon settlement, the Corporation receives payment for any share price appreciation while providing payment to the financial institution for any share price depreciation. The net effect of the equity swap partly offsets movements in the Corporation's share price which impacts the expense of the DSUs, PSUs and RSUs included in the Corporation's selling and administrative expenses.

As at March 31, 2024, the equity swap agreement covered 500,000 common shares of the Corporation at a price of \$13.91 per share and matures in June 2024 (400,000 common shares at a price of \$13.39 per share, and maturity of June 2024 as at March 31, 2023).

Credit and credit concentration risks

The credit and credit concentration risks represent counterparty risks where the parties with which the Corporation enters into agreements or contracts could be unable to fulfill their commitments.

Credit risks are primarily related to the potential inability of customers to discharge their obligations with regards to the Corporation's accounts receivable and of financial institutions with regards to the Corporation's cash and derivative financial instruments.

Credit concentration risks are related to the fact that approximately 53% of the Corporation's fiscal 2024 sales are made to the top five customers (52% in 2023). More specifically, in fiscal 2024, the Corporation had one customer representing 16% of its consolidated sales (one customer representing 15% in 2023).

Accounts receivable

The credit and credit concentration risks related to these financial instruments are limited due to the fact that the Corporation deals generally with large corporations and Government agencies, with the exception of sales made to private small businesses which represent together approximately 3.7% in fiscal 2024 (3.5% in 2023) of the Corporation's consolidated sales.

The Corporation has historically not made any significant write-off of accounts receivable, and as at March 31, 2024, the number of days in accounts receivable was at acceptable levels in the industry in which the Corporation operates.

Changes in the allowance for doubtful accounts were as follows for the fiscal year ended March 31, 2024:

	2024	2023
Balance, beginning of year	\$ 429	\$ 505
Arising during the year	218	90
Reversed	(102)	(165)
Effect of changes in foreign exchange rates	—	(1)
Balance at the end of the year	\$ 545	\$ 429

The details of the Corporation's trade receivables are the following:

As at	March 31, 2024	March 31, 2023
Not past due	\$ 134,770	\$ 111,037
Past due less than 90 days	10,830	6,609
Past due more than 90 days	1,732	3,192
	147,332	120,838
Allowance for doubtful accounts	(545)	(429)
Balance at the end of the year	\$ 146,787	\$ 120,409

Cash and derivative financial instruments

The credit and credit concentration risks related to these financial instruments are limited due to the fact that the Corporation deals mainly with high-grade financial institutions such as Canadian chartered banks and their U.S. subsidiaries or branches or with a Canadian branch of a U.S. bank, based on the Corporation's investment policy. On that basis, the Corporation does not anticipate any breach of agreements by counterparties.

As at March 31, 2024, the maximum exposure to credit and credit concentration risks for financial instruments represented the following (see note 29):

	FVTOCI ⁽¹⁾	A.C.
Cash	\$ —	\$ 9,765
Accounts receivable	—	146,787
Derivative financial instruments	4,618	—

⁽¹⁾ Represents the fair value of derivative financial instruments designated in a hedging relationship.

Liquidity risk

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set, under the terms of such commitments and at a reasonable price. The Corporation manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of long-term sales contracts and planned capital expenditures.

As at March 31, 2024, the maturity analysis of financial liabilities represented the following:

	< 1 year	1 to 3 years	4 to 5 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 142,718	\$ —	\$ —	\$ —	\$ 142,718
Customer advances	35,494	—	—	—	35,494
Long-term debt including interest payments ⁽¹⁾	23,586	45,549	151,922	43,296	264,353
Derivative financial instruments	3,147	2,675	17	—	5,839

⁽¹⁾The carrying amount of the long-term debt is \$219,628 (note 19).

NOTE 31. CAPITAL RISK MANAGEMENT

The general objectives of the Corporation, in terms of capital management, reside in the preservation of Héroux-Devtek's capacity to continue operating and provide an adequate return on investment to its stakeholders while selling its products and services at a price commensurate with the level of operating risk assumed by the Corporation.

The Corporation thus determines the total amount of capital required consistent with risk levels. This capital structure is adjusted on a timely basis depending on changes in the economic environment and risks of the underlying assets.

In order to maintain or adjust its capital structure, the Corporation can, for example:

- Issue new common shares;
- Repurchase common shares;
- Sell certain assets to reduce indebtedness;
- Return capital to shareholders.

The net debt-to-equity ratio, represented by net debt divided by shareholders' equity, is the overriding factor in the Corporation's capital management and monitoring practices.

During fiscal year ended March 31, 2024, the Corporation pursued the same capital management strategy as last year, which consists in generally maintaining a sufficient net debt-to-equity ratio to allow access to financing at a reasonable or acceptable cost.

The Corporation's net debt-to-equity ratio was as follows:

As at	March 31, 2024	March 31, 2023
Current portion of long-term debt	\$ 16,263	\$ 11,425
Long-term debt	201,764	166,483
Deferred financing costs, net	1,601	2,070
Less: Cash	9,765	15,020
Net debt	\$ 209,863	\$ 164,958
Shareholders' equity	429,638	390,919
Net debt-to-equity ratio	0.49:1	0.42:1

The Corporation is not subject to any regulatory capital requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year
ended March 31, 2024

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OVERVIEW

The purpose of this management discussion and analysis (“MD&A”) is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. and its subsidiaries (“Héroux-Devtek”, the “Corporation” or “Management”) evolved between March 31, 2023 and March 31, 2024. It also compares the operating results and cash flows for the quarter and fiscal year ended March 31, 2024 to those of the same periods of the prior fiscal year.

This MD&A is based on the audited consolidated financial statements for fiscal year ended March 31, 2024, which are prepared in accordance with International Financial Reporting Standards (“IFRS”), and should be read in conjunction with them. All amounts in this MD&A are in thousands of Canadian dollars, the Corporation’s functional and presentation currency for all periods referred to herein, unless otherwise indicated. Financial data for the quarters ended March 31, 2024 and 2023 has not been audited.

IFRS and non-IFRS financial measures

This MD&A contains both IFRS and non-IFRS financial measures. Non-IFRS financial measures are defined and reconciled to the most comparable IFRS measures in the *Non-IFRS Financial Measures* section under *Operating Results*.

Materiality for disclosures

Management determines whether information is material based on whether they believe a reasonable investor’s decision to buy, sell or hold securities of the Corporation would likely be influenced or changed should the information be omitted or misstated, and discloses material information accordingly.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements which are mainly about, but may not be limited to, Héroux-Devtek’s future financial performance, expectations, objectives or possible events. These statements are mainly, but may not be exclusively, contained in the *Economic Outlook* section and are usually identifiable by the use of such terms as: “aim”, “anticipate”, “assumption”, “believe”, “continue”, “expect”, “foresee”, “forecast”, “guidance”, “intend”, “may”, “plan”, “predict”, “should” or “will”. The predictive nature of such statements makes them subject to risks, uncertainties and other important factors that could cause the actual performance or events to differ materially from those expressed in or implied by such statements.

Such factors include, but are not limited to customers, supply chain, the aerospace industry and the economy in general; the impact of other worldwide general economic conditions; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity prices; financial and operational performance of suppliers and customers; foreign exchange or interest rate fluctuations; and the impact of accounting policies issued by international standard setters. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on forward-looking statements.

Héroux-Devtek provides such forward-looking statements for the purpose of assisting the reader in understanding the Corporation’s financial performance and prospects and to present management’s assessment of future plans and operations. The reader is cautioned that such statements may not be appropriate for other purposes.

Although management believes in the expectations conveyed by the forward-looking statements and while they are based on information available on the date such statements were made, there can be no assurance that such expectations will prove to be correct and readers are advised that actual results may differ from expected results. All subsequent forward-looking statements, whether written or orally attributable to the Corporation or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. Unless otherwise required by applicable securities laws, the Corporation expressly disclaims any intention, and assumes no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

HIGHLIGHTS OF THE YEAR

Fiscal year	2024	2023
Sales	\$ 629,767	\$ 543,622
Operating income	59,763	26,198
Adjusted EBITDA ⁽¹⁾	92,184	61,366
Net income	38,271	13,825
Adjusted net income ⁽¹⁾	34,310	12,606
Cash flows related to operating activities	2,933	30,060
Free cash flow ⁽¹⁾	(31,501)	(1,718)
<i>In dollars per share</i>		
Earnings share - diluted	\$ 1.13	\$ 0.40
Adjusted EPS ⁽¹⁾	1.01	0.37
<i>As at</i>	March 31, 2024	March 31, 2023
Funded backlog ⁽²⁾	\$ 951,000	\$ 864,000

⁽¹⁾ Non-IFRS financial measure. Refer to the Non-IFRS financial measures section under Operating Results for definitions and reconciliations to the most comparable IFRS measures.

⁽²⁾ Represents firm orders.

Key Events

Héroux-Devtek's throughput this fiscal year improved 15.8% to a record \$629.8 million from \$543.6 million last year exceeding pre-pandemic levels. This performance is largely the result of the actions taken to better navigate the challenges of the current environment.

The higher volume as well as the Corporation's pricing initiatives drove better profitability, which was partially offset by the year-over-year effects of inflation on costs. As a result, operating income increased to \$59.8 million from \$26.2 million last year, and Adjusted EBITDA increased 50.2% to \$92.2 million or 14.6% of sales, compared to \$61.4 million or 11.3% of sales last year.

Although the operating environment improved compared to last year, it remains volatile and several factors are still hampering the consistent generation of throughput:

- Lead times for the procurement of raw material remain long and Russia's invasion of Ukraine limits the supply of certain material; and,
- Although the peak of inflation has passed, higher costs, higher interest rates and longer raw material lead times continue to hamper the aerospace supply chain's ability to manufacture and deliver products in a timely and efficient manner.

In order to mitigate this, the Corporation has invested in inventory levels to stabilize its production system and to sustain upcoming sales growth. These measures resulted in cash flows related to operating activities decreasing to \$2.9 million from \$30.1 million in spite of higher throughput and profitability, as the increase in inventory consumed \$59.3 million during the year.

The positive result of these investments as well as the measures mentioned earlier accelerated throughout the fiscal year, resulting in record fourth quarter performance, including \$184.1 million of sales, \$27.6 million of operating income and \$33.1 million of adjusted EBITDA, representing 18.0% of sales.

Strong demand in the aerospace industry, and in the defence sector in particular, are very favourable for the Corporation. This is reflected in a record firm order book of \$951.0 million at March 31, 2024, up 10% from March 31, 2023 and 39.4% compared to March 31, 2022. This level of business demonstrates the health of Héroux-Devtek's customer relationships and in the quality and safety of its products. The challenge remains delivering on these orders in a timely and efficient manner given the current environment.

OVERVIEW OF THE BUSINESS

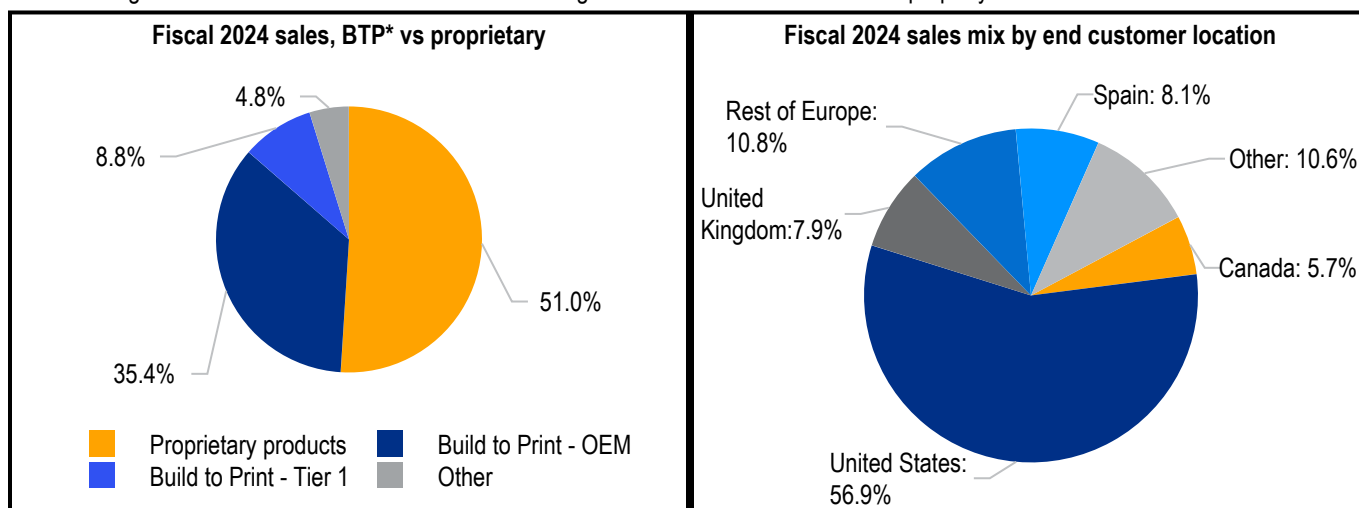
Héroux-Devtek Inc. (TSX: HRX) is an international company specializing in the design, development, manufacture and repair and overhaul of landing gear, hydraulic and electromechanical flight control actuators, custom ball screws and fracture-critical components. The Corporation has also built a strong, well-recognized design engineering team. Héroux-Devtek is the third largest landing gear company in the world based on sales volume, supplying both the civil and defence market segments.

In the defence market segment, the Corporation supplies landing gear systems, parts and repair and overhaul services for a diversified portfolio of transport aircraft, fighter jets and helicopters. For the civil market segment, the Corporation is active in the large commercial, business jet, regional aircraft and helicopter markets. As a result, a significant portion of the Corporation's sales are made to a limited number of customers worldwide, though mainly in the United States and Europe.

The Corporation's head office is located in Longueuil, Québec, Canada while operating facilities are located in Canada, the United States, Spain and the United Kingdom.

Héroux-Devtek sells to Original Equipment Manufacturers ("OEMs") such as Boeing, Airbus, Lockheed Martin, Northrop Grumman, Leonardo, Embraer, Saab, Bell and Dassault Aviation; to Tier 1 suppliers such as Safran Landing Systems and Collins Aerospace; and to end users in the aftermarket where its largest customer is the U.S. Air Force. In fiscal 2024, the Corporation's five largest customers represented approximately 53% of total consolidated sales, with one customer accounting for 16%.

The following charts describe Héroux-Devtek's revenue segmentation in terms of intellectual property and destination:



* BTP: Build to Print

ECONOMIC OUTLOOK

Record commercial aircraft manufacturer backlogs and higher defence spending drive positive outlook

According to data from IATA, Global passenger traffic as measured in revenue passenger kilometer (RPKs) continued its post-COVID recovery in 2023. Industry-wide RPKs rose 36.9% as traffic reached 94.1% of 2019 levels. International traffic, while 41.6% stronger year on year, is still 88.6% of pre-COVID levels, suggesting further room for improvement in the near term¹.

Order intake for aircraft marked a substantial increase from previous years at Airbus² and Boeing³ while deliveries for passenger aircraft were significantly below the pre-COVID peak, reaching levels last seen in 2012 and 2013. The Centre for Aviation (CAPA) reports that the global aircraft order backlog has increased to 13 years, up from 9 years before the COVID era. This indicates strong and sustained throughput for the aircraft supplier industry for years to come⁴.

¹ Source: Global Air Travel Demand Continued Its Bounce Back in 2023, IATA, January 31, 2024

² Source: Airbus Annual Report 2023, Airbus, February 15, 2024

³ Source: Boeing Reports Fourth Quarter Results, Boeing, January 31, 2024

⁴ Source: Global aircraft order backlog hits 13 years. Airbus beats Boeing on key metrics, CAPA, January 11, 2024

Spending on defence meanwhile maintained its momentum in 2023, growing for the ninth consecutive year on increasing concerns of global military conflicts. The Russian invasion of Ukraine, in its third year, has brought attention to the potential for military conflicts and prompted numerous countries to substantially increase their military expenditures. Additionally, several nations have announced long-term plans to increase their spending levels over periods spanning up to a decade

Civil Market

Global production backlog and long-term perspectives

According to the Centre for Aviation Fleet Database (CAPA), globally, the civil aircraft backlog stood at a record of 15,933 aircraft at the end of December 2023, equivalent to 12.6 years of production based on 2023 delivery rates⁵.

Aircraft orders totalled 3,850 in 2023, a record and a 91% increase compared to 2022. Deliveries meanwhile continued to improve at 1,265 aircraft, an 11% improvement over 2022 but were still 26% below 2018's record high of 1,698.

According to Boeing's projections, the global aviation industry is expected to require deliveries of 42,595 new airplanes over the next 20 years in order to meet the growing demand. Of this total, single-aisle aircraft are estimated to account for approximately 76%, widebody aircraft are projected to represent around 17%, regional jet 4% and freighter 3%⁶. The increase in the global fleet over the next 20 years is expected therefore to be in the order of 3.5% per annum, a significant acceleration as Boeing's prior year forecast anticipated growth in the global aircraft fleet of 2.8% per annum for the same period.

This substantial demand will require the aerospace supply chain to significantly increase output, well beyond what was required to meet the level of deliveries achieved in calendar 2018. While this bodes well for suppliers, it also represents a difficult challenge to meet, particularly given recent supply chain disruptions.

Business jets

The General Aviation Manufacturers Association (GAMA) reported global sales of 730 new private business jets in 2023, an increase from the 712 new jets sold in 2022.

Over the next ten years, Teal Group forecasts a total production of 10,905 aircraft worth US\$262 billion, over the next ten years (2023-2032). For comparison, the last ten years from 2013 to 2022, saw production of 9,702 business aircraft worth US\$246 billion (also in 2023 dollars)⁷. Growth in deliveries in dollar terms is expected to outpace the number of units in calendar 2024 compared to 2023, driven by higher deliveries of very large aircraft such as the Dassault Falcon 6X⁸.

Air cargo

Global full-year demand in 2023, measured in cargo tonne-kilometers, was down 1.9% year on year in 2023 (-2.2% for international operations). Compared to 2019, it was down 3.6% (-3.8% for international operations). This is an impressive performance coming from a high base.

Capacity in 2023, measured in Available Cargo Tonne Kilometres, was 11.3% above 2022 (+9.6% for international operations). Compared to 2019 (pre-COVID) levels, capacity was up 2.5% (0.0% for international operations).

Boeing forecasts demand for freighters of 2,795 aircraft over the next 20 years which will grow the freighter fleet from 2,270 in 2022 to 3,745 in 2042 (net of retirements), a 65% increase driven by developing supply chains and demand for express deliveries⁹. 1,070 of these aircraft are forecast to be new production (515 widebody), while the balance are conversions.

Defence Market

Military expenditures

Total global military expenditure increased by 6.8% in real terms in 2023, to reach a new high of US\$2,443 billion, a marked increase from the already brisk 3.7% increase from the prior year, marking a ninth consecutive year of military spending increases¹⁰. Significant increases in recent years are essentially driven by Russia's invasion of Ukraine and the ensuing need for countries to respond to the geopolitical tension.

⁵ Source: Global aircraft order backlog hits 13 years. Airbus beats Boeing on key metrics, CAPA, January 11, 2024

⁶ Source: Boeing Forecasts Demand for 42,600 New Commercial Jets Over Next 20 Years, Boeing, June 17, 2023

⁷ Source: World Military & Civil Aircraft Briefing, Teal Group Corporation, February 2023

⁸ Source: World Military & Civil Aircraft Briefing, Teal Group Corporation, January 2024

⁹ Source: World Air Cargo Freighters Industry Forecast (WACF) 2022-2041, Boeing, November 1, 2022

¹⁰ Source: Trend in World Military Expenditure, 2023, SIPRI, April 2024

The United States continued to dominate world military expenditures, increasing 2.3% compared to 2022 to reach \$916 billion in 2023. The next eleven countries with the most significant military spending totaled \$930 billion of combined expenditures. The Biden government's fiscal 2025 budget proposal proposed further increases, up 3% from the previous budget¹¹. The proposed budget intends to allow the Department of Defense to "invest in capabilities to maintain a ready, lethal, and combat-credible joint force", and includes \$61.2 billion earmarked for airpower to "continue developing, modernizing, and procuring lethal air forces".

Outside of the United States, other NATO member states continued their generally upward trend in spending, with eleven countries meeting or exceeding the stated target of 2% of GDP spent on military, up four countries from 2022. Among the top ten countries in terms of military expenditures, the United Kingdom, Germany and France increased their spending by 7.9%, 9.0% and 6.5% respectively¹².

Fighter jets

According to Teal Group, the fighter and attack aircraft segment is experiencing its strongest performance in nearly three decades. This growth is primarily attributed to factors such as aging fleets, heightened global tensions, extensive aircraft utilization, the delayed ramp-up of the F-35 program, and the presence of high resource prices. As a result, the demand for fighters is expected to continue expanding in the foreseeable future¹³.

Despite its delays and cost overruns, the Lockheed Martin F-35 has come to dominate this market and according to Teal Group it will represent approximately 1500 deliveries over the next ten years. Other programs, such as the F-18, F-15, Gripen and Eurofighter are expected to make up a further 400 aircraft¹⁴.

While already experiencing strong growth, there is anticipation surrounding new developments in the fighter market. There are several ongoing programs to develop 6th generation aircraft, including the Global Combat Air Programme (United Kingdom, Italy and Japan), Future Combat Air System (France, Germany and Spain), and Next Generation Air Dominance in the United States. The latter program, which is expected to enter production first among these, includes replacements for the F-22 and F-18, as well as several unmanned aircraft with various mission profiles.

Military transport aircraft

Despite the strategic needs for air mobility, such as global tensions and the necessity for remote deployments, the market for military transports has been in decline, falling 39% by value from its peak in 2011 to 2021, with an anticipated further drop projected by 2027. This decline is seen across various segments, however smaller military transport aircraft such as the Airbus C295 should see a sustained level of production to meet ongoing demands. The limited aircraft production presents a favourable opportunity for aftermarket business¹⁵.

Military helicopter

Teal Group forecasts production of 4,575 military machines worth \$120.6 billion between 2022 and 2031, representing a decline relative to the last ten years (2012-2021) when production amounted to \$140.6 billion. On a unit basis, however, production is set to experience a marginal increase over the next 10 years, with the number of rotorcrafts produced rising from 409 in 2022 to 427 by 2031. The peak production is expected to occur in 2027, reaching 525 units. Like the military transport aircraft segment, the market is still dominated by older helicopter models such as the Boeing AH-64, which was first introduced in 1965, and the Sikorsky UH60L/M, with its initial model introduced in 1974.

While in recent years the future of the market prominently featured the U.S. Armed Forces' Future Vertical Lift initiative, the outlook has changed noticeably with the cancellation of the Future Attack Reconnaissance Aircraft (FARA) program. The U.S. Army cited ongoing lessons learned in the battlefield, especially in Ukraine, and ordered the most recent versions of Boeing's CH-47 and Sikorsky's UH-60 instead¹⁶.

¹¹ Source: Department of Defense Releases the President's Fiscal Year 2025 Defense Budget, U.S. Department of Defense, March 11, 2024

¹² Source: Trend in World Military Expenditure, 2023, SIPRI, April 2024

¹³ Source: World Military & Civil Aircraft Briefing, Teal Group Corporation, November 2023

¹⁴ Source: World Military & Civil Aircraft Briefing, Teal Group Corporation, November 2023

¹⁵ Source: World Military & Civil Aircraft Briefing, Teal Group Corporation, October 2023

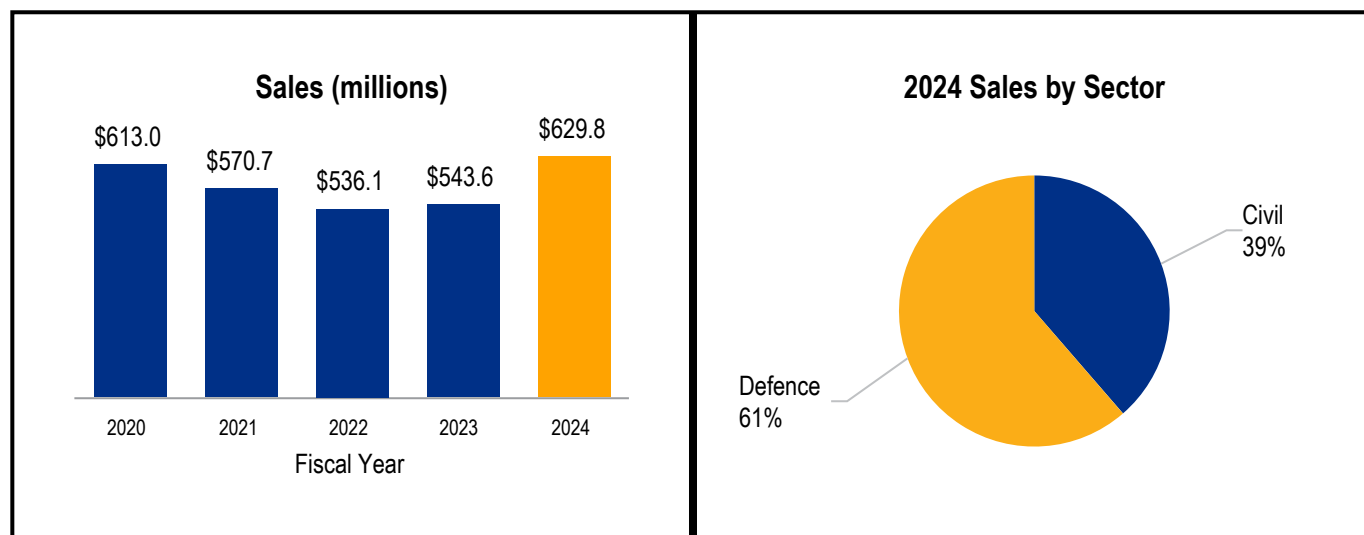
¹⁶ Source: Army Future Attack Reconnaissance Aircraft (FARA) Program Proposed Cancellation: Background and Issues for Congress, Congressional Research Services, February 16, 2024

OPERATING RESULTS

	Quarters ended March 31,			Fiscal years ended March 31,		
	2024	2023	Variance	2024	2023	Variance
Sales	\$ 184,053	\$ 155,978	\$ 28,075	\$ 629,767	\$ 543,622	\$ 86,145
Gross profit	39,389	22,741	16,648	111,072	73,535	37,537
Selling and administrative expenses	15,738	12,862	2,876	55,270	48,556	6,714
Other gains	(3,961)	—	(3,961)	(3,961)	(1,219)	(2,742)
Operating income	27,612	9,879	17,733	59,763	26,198	33,565
Net financial expenses	4,726	1,175	3,551	14,275	7,575	6,700
Income tax expense	2,193	2,416	(223)	7,217	4,798	2,419
Net income	\$ 20,693	\$ 6,288	\$ 14,405	\$ 38,271	\$ 13,825	\$ 24,446
Adjusted net income ⁽¹⁾	\$ 16,732	\$ 6,288	\$ 10,444	\$ 34,310	\$ 12,606	\$ 21,704
Adjusted EBITDA ⁽¹⁾	\$ 33,069	\$ 19,595	\$ 13,474	\$ 92,184	\$ 61,366	\$ 30,818
<i>As a percentage of sales</i>						
Gross profit	21.4%	14.6%	680 bps	17.6%	13.5%	410 bps
Selling and administrative expenses	8.6%	8.2%	40 bps	8.8%	8.9%	-10 bps
Operating income	15.0%	6.3%	870 bps	9.5%	4.8%	470 bps
<i>In dollars per share</i>						
Earnings per share -basic and diluted	\$ 0.61	\$ 0.18	\$ 0.43	\$ 1.13	\$ 0.40	\$ 0.73
Adjusted EPS ⁽¹⁾	\$ 0.49	\$ 0.18	\$ 0.31	\$ 1.01	\$ 0.37	\$ 0.64

⁽¹⁾ Non-IFRS financial measure. Refer to the Non-IFRS financial measures section for definitions and reconciliations to the most comparable IFRS measures.

Sales



Sales by market segment are detailed as follows:

	Fiscal years ended March 31,				
	2024	2023	FX Impact	Net variance	
Defence	\$ 386,400	\$ 372,942	\$ 9,403	\$ 4,055	1.1 %
Civil	243,367	170,680	5,922	66,765	39.1 %
Total	\$ 629,767	\$ 543,622	\$ 15,325	\$ 70,820	13.0 %

	Quarters ended March 31,				
	2024	2023	FX Impact	Net variance	
Defence	\$ 108,235	\$ 107,078	\$ 414	\$ 743	0.7 %
Civil	75,818	48,900	507	26,411	54.0 %
Total	\$ 184,053	\$ 155,978	\$ 921	\$ 27,154	17.4 %

The following analysis excludes the impact of foreign exchange fluctuations which are itemized in the tables above.

On a general basis, the increase in sales compared to the comparable periods results from the actions taken to stabilize the Corporation's production system to better deliver in the current supply chain environment.

Defence

The \$4.1 million net increase compared to last fiscal year and steady sales for the quarter were mainly driven by higher aftermarket business for legacy programs and higher deliveries for the Sikorsky CH-53K and Lockheed Martin F-35 programs, partly offset by lower demand for Boeing F-18 production.

Civil

The respective \$66.8 million and \$26.4 million net increases compared to last fiscal year and fourth quarter, were mainly driven by the increase in deliveries for the Boeing 777, Embraer Praetor and E2 programs.

Gross Profit

Gross profit increased from 13.5% of sales last year to 17.6% this year, and from 14.6% to 21.4% for the quarter due to the positive impact of higher volume and pricing initiatives, partly offset by the effects of inflation on costs. Foreign exchange had a negligible impact on both periods when compared to last year.

Selling and Administrative Expenses

	Quarters ended March 31,		Fiscal years ended March 31,	
	2024	2023	2024	2023
Selling and Administrative Expenses	\$ 15,738	\$ 12,862	\$ 55,270	\$ 48,556
Less: Net (gains) losses on conversion of net monetary items	(560)	(680)	61	105
	\$ 16,298	\$ 13,542	\$ 55,209	\$ 48,451
<i>As a percentage of sales</i>	8.9%	8.7%	8.8%	8.9%

When excluding net (gains) losses on conversion of net monetary items, the increases in Selling and Administrative Expenses when compared to last year mainly relate to higher employee-related costs, including the effect of share price fluctuations and performance factors on stock-based compensation expense, while as a percentage of sales it remains relatively stable for both the year and the quarter ended March 31, 2024

Other Gains

Other gains are items whose separate disclosure may be useful to users of the financial statements and MD&A in interpreting the Corporation's financial performance. These items do not share the same function as those included in other financial statement captions and generally are not as indicative of the Corporation's past or future operating performance.

	Quarters ended March 31,		Fiscal years ended March 31,	
	2024	2023	2024	2023
Extinguishment of liability	\$ (3,961)	\$ —	\$ (3,961)	\$ —
Business divestiture	—	—	—	(1,219)
	\$ (3,961)	\$ —	\$ (3,961)	\$ (1,219)

Extinguishment of liability

During the fiscal year and quarter ended March 31, 2024, a provision of \$4.0 million related to a previous business acquisition was extinguished due to the expiration of the indemnification agreement.

Business divestiture

The commercial objectives included in the agreement for the fiscal 2022 sale of the Corporation's Bolton operations to Ontic Engineering & Manufacturing UK Limited were achieved in September 2022, resulting in a net gain of \$1.2 million in fiscal 2023.

Operating Income

Operating income increased from 4.8% to 9.5% of sales this fiscal year and from 6.3% to 15.0% of sales for the quarter compared to the same periods last fiscal year mainly as a result of the factors described above, including Other gains representing 2.1% of sales during the quarter and 0.6% for the fiscal year.

Year-over-year, foreign exchange fluctuations had a negligible impact on both the quarter and fiscal year (< 0.1% of sales).

Net Financial Expenses

	Quarters ended March 31,		Fiscal years ended March 31,	
	2024	2023	2024	2023
Interest accretion on governmental authorities loans	\$ 895	\$ 822	\$ 3,125	\$ 3,140
Revision of governmental authorities loans repayment estimates	602	(1,207)	602	(1,207)
Interest on defined benefit obligations	(224)	(250)	(164)	(194)
Interest on leases	232	231	891	840
Amortization of deferred financing costs	117	117	469	475
Other net non-cash financial expense (income)	144	185	299	(146)
Net non-cash financial expenses	\$ 1,766	\$ (102)	\$ 5,222	\$ 2,908
Interest on long-term debt	\$ 3,034	\$ 2,111	\$ 9,483	\$ 6,946
Interest income on cash	(74)	(834)	(430)	(2,279)
	\$ 4,726	\$ 1,175	\$ 14,275	\$ 7,575

The increase in net non-cash financial expenses for the quarter and fiscal year essentially relate to an expense resulting from the update of government authority loan repayment estimates compared to a gain last year.

The increase in interest on long-term debt compared to last year for the quarter and fiscal year mainly relates to increases in underlying benchmark rates and the balance drawn on the credit facility due to the Corporation's investment in inventory.

The decrease in interest income on cash compared to last year relates to a lower outstanding cash balance as a result of investment in inventory, partly offset by higher underlying benchmark rates.

Income Tax Expense

	Quarters ended ended March 31,				Fiscal years ended March 31,			
	2024		2023		2024		2023	
Income before income tax expense	\$ 22,886		\$ 8,705		\$ 45,488		\$ 18,623	
Income tax expense at Canadian blended statutory tax	6,064	26.5%	2,307	26.5%	12,054	26.5%	4,935	26.5%
Results coming from foreign jurisdictions	(273)		(198)		(588)		(152)	
Non-deductible expenses	88		168		549		501	
Non-taxable income	(1,290)		(72)		(1,352)		(318)	
Prior year adjustments	2		(445)		(648)		(824)	
Non-recognition (recognition) of tax benefits	(2,398)		656		(2,798)		656	
Income tax expense	\$ 2,193	9.6%	\$ 2,416	27.8%	\$ 7,217	15.9%	\$ 4,798	25.8%

Net Income

Net income increased from \$13.8 million to \$38.3 million this fiscal year compared to last and increased from \$6.3 million to \$20.7 million during the quarter compared to the same quarter last fiscal year mainly as a result of the factors described above. Excluding other gains net of taxes, adjusted net income increased from \$12.6 million to \$34.3 million over the fiscal year, and from \$6.3 million to \$16.7 million during the quarter.

During the fiscal year, earnings per share increased from \$0.40 to \$1.13 per share (or increased from \$0.37 to \$1.01 per share excluding other gains net of taxes), while they increased from \$0.18 to \$0.61 per share (or increased from \$0.18 to \$0.49 excluding other gains net of taxes) during the quarter.

NON-IFRS FINANCIAL MEASURES

This MD&A is based on earnings in accordance with IFRS and the following non-IFRS financial measures:

Adjusted EBITDA:	Operating income excluding amortization expense and other gains.
Adjusted net income:	Net income excluding other gains net of taxes.
Adjusted earnings per share:	Diluted earnings per share calculated on the basis of adjusted net income.
Free cash flow:	Cash flows related to operating activities less net additions to property, plant and equipment and net increase or decrease in finite-life intangible assets, plus proceeds of disposal of property, plant and equipment.

These Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers. Management considers these metrics to be information which may assist investors in evaluating the Corporation's profitability and enable better comparability of the results from one period to another and with peers who may employ similar measures.

These measures are not considered by management to be a substitute for IFRS measures, nor to be superior as they often do not fully reflect periodic costs, the long-term costs of investing or financing decisions or the impact of events which are not a result of operations.

The following are reconciliations of these items to their most comparable IFRS measures as well as additional information about what they represent, excluding free cash flow. For the reconciliation of free cash flow to cash flows related to operating activities, refer to *Liquidity and Capital Resources*.

The Corporation's Adjusted EBITDA is calculated as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2024	2023	2024	2023
Operating income	\$ 27,612	\$ 9,879	\$ 59,763	\$ 26,198
Amortization expense	9,418	9,716	36,382	36,387
Other gains	(3,961)	—	(3,961)	(1,219)
Adjusted EBITDA	\$ 33,069	\$ 19,595	\$ 92,184	\$ 61,366

Management believes adjusted EBITDA provides valuable insight into the Corporation's day-to-day operations as they exclude from earnings factors that are more reflective of long-term financing or investing decisions than of current performance.

Adjusted EBITDA, in addition, provides an alternative assessment of future operating results as it excludes the impact of items that do not share the same function as those included in other financial statement captions and generally are not as indicative of the Corporation's past or future operating performance. Adjusted EBITDA is also used by management to assess operational performance and is a component of certain performance-based employee remuneration.

The Corporation's adjusted net income and adjusted earnings per share are calculated as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2024	2023	2024	2023
Net income	\$ 20,693	\$ 6,288	\$ 38,271	\$ 13,825
Other gains, net of taxes	(3,961)	—	(3,961)	(1,219)
Adjusted net income	\$ 16,732	\$ 6,288	\$ 34,310	\$ 12,606
<i>In dollars per share</i>				
Earnings per share - diluted	\$ 0.61	\$ 0.18	\$ 1.13	\$ 0.40
Other gains, net of taxes	(0.12)	—	(0.12)	(0.03)
Adjusted earnings per share	\$ 0.49	\$ 0.18	\$ 1.01	\$ 0.37

Management believes adjusted net income and adjusted earnings per share provide investors with an alternative assessment of the Corporation's current period results and future earnings prospects as they exclude from earnings the impact of items that do not share the same function as those included in other financial statement captions and generally are not as indicative of the Corporation's past or future operating performance. They are also a component of certain performance-based employee remuneration.

LIQUIDITY AND CAPITAL RESOURCES

CREDIT FACILITIES AND NET DEBT POSITION

Senior Secured Syndicated Revolving Credit Facility (“Revolving Facility”)

The Corporation has a Revolving Facility with a syndicate of five Canadian banks and their U.S. affiliates or branches and a Canadian branch of a U.S. bank. This facility allows the Corporation and its subsidiaries to borrow up to \$250.0 million, either in Canadian dollars, US dollars, British Pounds, Euro or equivalent currencies. It also includes an accordion feature to increase available credit by \$200.0 million subject to the approval of the lenders.

As at March 31, 2024, the facility had a balance of \$41.0 million, compared to none as at March 31, 2023. Drawings on the facility were made due to the Corporation’s investment in inventory made to stabilize the production system and to sustain upcoming sales growth.

Unsecured Subordinated Term Loan Facility (“Term Loan Facility”)

The Corporation has a Term Loan Facility provided by the Fonds de solidarité FTQ for an amount of \$75.0 million. This facility is fully drawn and bears interest at a rate of 5.0% and matures in September 2028. The Term Loan Facility is repayable at maturity, and the Corporation has the option to make early repayments as of September 2024, subject to certain fees.

Net Debt Position

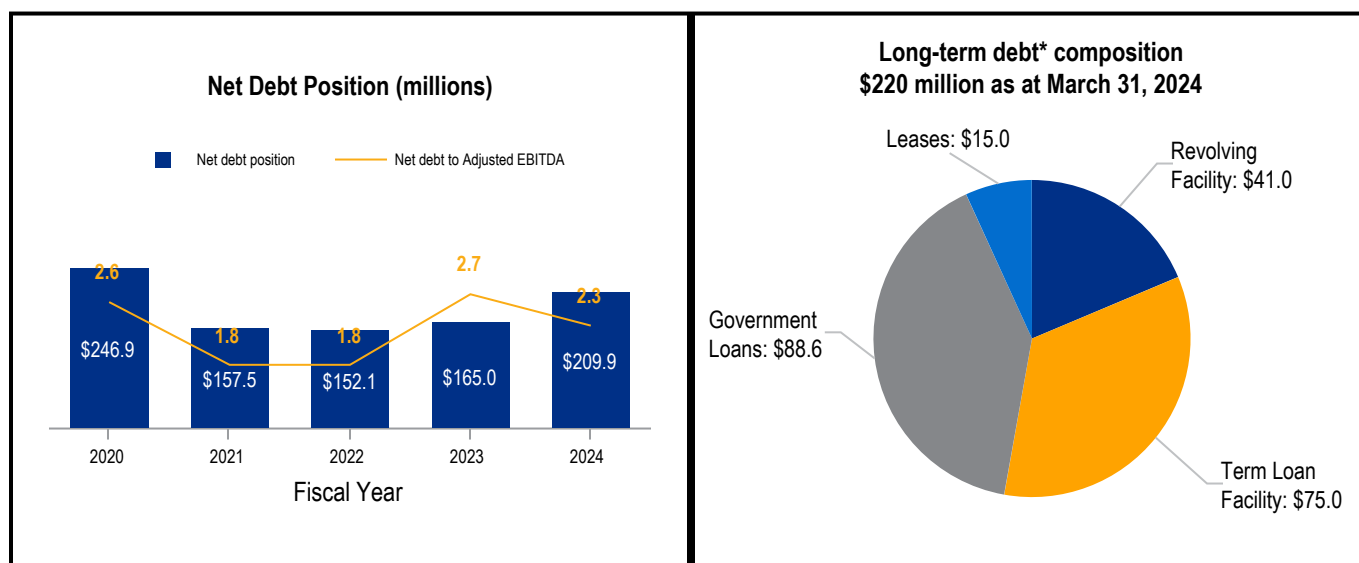
The Corporation’s net debt position is calculated as follows, as at:

	March 31, 2024	March 31, 2023
Long-term debt, including current portion ⁽¹⁾	\$ 219,628	\$ 179,978
Less: Cash	9,765	15,020
Net debt position	\$ 209,863	\$ 164,958
Adjusted EBITDA ⁽²⁾	\$ 92,184	\$ 61,366
Net debt to adjusted EBITDA ratio	2.3:1	2.7:1

⁽¹⁾ Excluding net deferred financing costs of \$1.6 million and \$2.1 million as at March 31, 2024 and March 31, 2023, respectively.

⁽²⁾ Non-IFRS financial measure. Refer to the Non-IFRS financial measures section for definitions and reconciliations to the most comparable IFRS measures.

The Corporation’s net debt position increased throughout the fiscal year mainly due to the \$59.3 million investment in inventory to stabilize the production system and to sustain upcoming sales growth.



*Excluding net deferred financing costs of \$1.6 million as at March 31, 2024 and \$2.1 million as at March 31, 2023.

Long-term debt is subject to certain general and financial covenants related to, among others, indebtedness, cash flows and equity of the Corporation and/or certain subsidiaries. The Corporation complied with its covenants during the fiscal year ended March 31, 2024 and expects to continue to comply with these restrictive financial covenants through the current fiscal year. In general terms, the Corporation has a healthy financial situation and is well positioned to meet its financial needs.

The Corporation has no obligatory capital repayments required on its term loan facilities until September 2028 while the revolving facility matures in June 2027.

GOVERNMENT AUTHORITIES LOANS

Governmental authorities' loans represent government assistance for the purchase of certain equipment or tooling, for the modernization or additions to the Corporation's facilities or for development costs capitalized or expensed for aerospace programs. They were granted as incentives under Canadian federal and provincial or Spanish industrial programs to promote industry development.

These loans have varying terms governing the timing and amount to be repaid. Repayments, when not on a fixed schedule, are either based on sales of specific programs or the growth in sales of all or certain of Héroux-Devtek's product lines and bear no or below-market interest rates.

They are measured at a discounted value using a corresponding market rate of interest each time they are received, and the related discount is accreted to income using the effective interest rate method and included in net financial expenses.

Assumptions underlying loan repayments are reviewed at least annually. As at March 31, 2024, the Corporation revised the estimated repayment schedule of its government authorities loans, taking into account updated assumptions and data. This resulted in a non-cash loss of \$0.6 million (gain of \$1.2 million in fiscal 2023), which was included in net financial expenses.

As at March 31, 2024, the Corporation had a present value of \$88.6 million outstanding under these agreements (\$89.0 million as at March 31, 2023), bearing effective interest rates between 0.0% to 6.6% as at March 31, 2024 (0.0% to 6.6% as at March 31, 2023). These loans have repayment terms extending to fiscal 2035 at the latest.

VARIATIONS IN CASH

	Quarters ended March 31,		Fiscal years ended March 31,	
	2024	2023	2024	2023
Cash at beginning of periods	\$ 6,411	\$ 90,837	\$ 15,020	\$ 86,692
Cash flows related to operating activities	19,743	4,518	2,933	30,060
Cash flows related to investing activities	(9,476)	(12,888)	(34,434)	(28,292)
Cash flows related to financing activities	(7,250)	(67,446)	26,097	(74,389)
Effect of changes in exchange rates on cash	337	(1)	149	949
Cash at end of periods	\$ 9,765	\$ 15,020	\$ 9,765	\$ 15,020

Operating Activities

The Corporation generated cash flows from its operating activities as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2024	2023	2024	2023
Net income	\$ 20,693	\$ 6,288	\$ 38,271	\$ 13,825
Items not requiring an outlay of cash:				
Amortization expense	9,418	9,716	36,382	36,387
Deferred income taxes	(1,785)	2,780	83	6,021
Extinguishment of liability	(3,961)	—	(3,961)	—
Net non-cash financial expenses	1,766	(102)	5,222	2,908
Stock-based compensation expense	368	329	1,446	1,306
	26,499	19,011	77,443	60,447
Net change in non-cash items	(6,756)	(14,493)	(74,510)	(30,387)
Cash flows related to operating activities	\$ 19,743	\$ 4,518	\$ 2,933	\$ 30,060

The net change in non-cash items can be summarized as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2024	2023	2024	2023
Accounts receivable	\$ (16,995)	\$ (22,180)	\$ (26,053)	\$ (18,003)
Inventories	(7,737)	(14,408)	(59,296)	(55,323)
Other assets	(73)	(3,052)	219	3,955
Accounts payable and accrued liabilities	12,568	20,685	5,948	19,558
Provisions	(982)	(770)	(2,198)	(5,394)
Customer advances and progress billings	2,908	2,510	5,565	27,658
Other liabilities	3,555	2,722	1,305	(2,838)
Net change in non-cash items	\$ (6,756)	\$ (14,493)	\$ (74,510)	\$ (30,387)

For the quarter and fiscal year ended March 31, 2024, the negative net change in non-cash items mainly reflects:

- An investment in inventory levels to stabilize the production system and sustain future sales growth; and,
- An increase in accounts receivable mainly related to higher sales volume.

These negative items were partly offset by increases in customer advances and progress billings and in accounts payable and accrued liabilities resulting from the higher level of activity.

For the quarter and fiscal year ended March 31, 2023, the negative net change in non-cash items mainly reflects:

- An investment in inventory levels to stabilize the production system and mitigate the effect of supply chain delays; and,
- An increase in accounts receivable mainly related to the non-linear profile of fourth quarter deliveries.

These negative items were partly offset by an increase in accounts payable and accrued liabilities and customer advances.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2024	2023	2024	2023
Net additions to property, plant and equipment	\$ (5,574)	\$ (6,976)	\$ (20,519)	\$ (18,641)
Net increase in finite-life intangible assets	(3,902)	(6,282)	(13,915)	(13,137)
Proceeds from a business divestiture	—	370	—	3,486
Cash flows related to investing activities	\$ (9,476)	\$ (12,888)	\$ (34,434)	\$ (28,292)

The net increase in finite-life intangible assets over the quarter and fiscal year was primarily explained by a lower investment in capitalized development costs than during Fiscal 2023 partly offset by investments in an ERP system implementation.

Proceeds from a business divestiture related to the Fiscal 2022 sale of the Corporation's Bolton operations.

Additions to property, plant and equipment shown above can be reconciled as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2024	2023	2024	2023
Gross additions to property, plant and equipment	\$ 7,436	\$ 9,469	\$ 24,000	\$ 19,998
Government assistance	(96)	(21)	(69)	(78)
Additions to property, plant and equipment	\$ 7,340	\$ 9,448	\$ 23,931	\$ 19,920
Variation in unpaid additions included in Accounts Payable	(1,625)	(1,548)	(652)	(130)
Non-cash additions of right-of-use assets	(141)	(924)	(2,760)	(1,149)
Additions, as per statements of cash flows	\$ 5,574	\$ 6,976	\$ 20,519	\$ 18,641

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2024	2023	2024	2023
Increase in long-term debt	\$ 761	\$ 807	\$ 51,894	\$ 7,046
Repayment of long-term debt	(8,011)	(66,113)	(18,998)	(75,747)
Issuance of common shares	—	—	—	1,103
Repurchase and cancellation of shares	—	(2,140)	(6,799)	(6,546)
Increase in deferred financing cost	—	—	—	(245)
Cash flows related to financing activities	\$ (7,250)	\$ (67,446)	\$ 26,097	\$ (74,389)

The increase in long-term debt during the fiscal year mainly relate to drawings on the Revolving Facility due to the Corporation's investment in inventory made to stabilize the production system and prepare for future sales growth, while repayments of long-term debt are comprised of partial repayment of the revolving facility, lease payments and scheduled reimbursements of governmental loans.

Repayment of long-term debt during the fourth quarter and fiscal 2023 is comprised of the full reimbursement of the revolving facility, lease payments and scheduled reimbursements of governmental loans.

Refer to the *Normal Course Issuer Bid* section under *Financial Position* for further details regarding the repurchase and cancellation of shares.

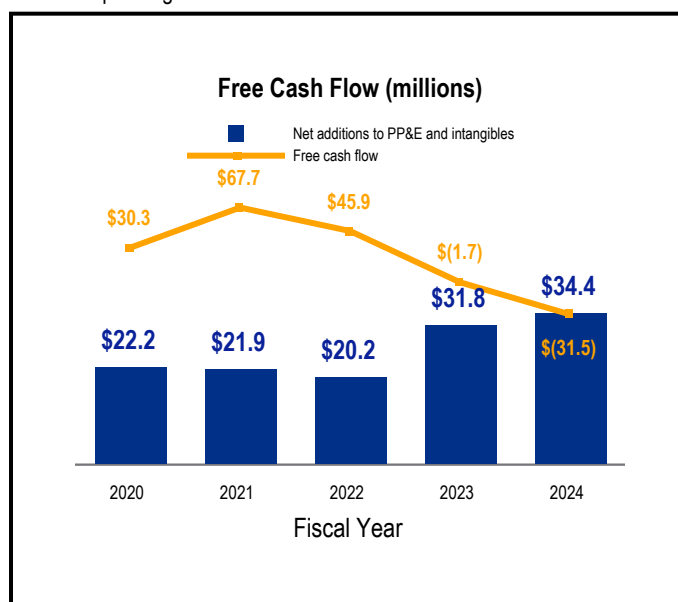
FREE CASH FLOW ⁽¹⁾

	Quarters ended March 31,		Fiscal years ended March 31,	
	2024	2023	2024	2023
Cash flows related to operating activities	\$ 19,743	\$ 4,518	\$ 2,933	\$ 30,060
Net additions to property, plant and equipment	(5,574)	(6,976)	(20,519)	(18,641)
Net increase in finite-life intangible assets	(3,902)	(6,282)	(13,915)	(13,137)
Free cash flow (usage) ⁽¹⁾	\$ 10,267	\$ (8,740)	\$ (31,501)	\$ (1,718)

⁽¹⁾ Non-IFRS financial measure. Refer to the Non-IFRS financial measures section under Operating Results for the definition of this metric.

Management considers free cash flow to be a good indicator of financial strength and profitability because it shows how much cash generated by operations is available for distribution, to repay debt and fund investments.

The decrease in free cash flow over the fiscal year compared to last fiscal year is mainly explained by a lower increase in customer advances and progress billing. The increase in free cash flow for the fourth quarter compared to the same period last year was mainly driven by higher cash flows from operations resulting from higher volume and profitability and lower investment in inventory.



LIQUIDITY REQUIREMENTS

The summary of the following contractual obligations of the Corporation includes payments due over the next five years and thereafter, as at March 31, 2024:

Contractual obligations	Total	Payments due by period			
		1 year	2-3 years	4-5 years	> 5 years
Governmental authorities' loans	\$ 103,644	\$ 13,931	\$ 27,425	\$ 26,508	\$ 35,780
Lease liabilities	19,693	3,318	5,450	3,409	7,516
Term Loan Facility	91,708	3,713	7,426	80,569	—
Repayments of long term debt, including interest	264,353	23,586	45,549	151,922	43,296
Purchase obligations	439,226	325,377	112,203	1,646	—
Accounts payable	87,042	87,042	—	—	—
Building, machinery and equipment acquisition commitments	4,930	4,930	—	—	—
Total contractual obligations⁽¹⁾	\$ 795,551	\$ 440,935	\$ 157,752	\$ 153,568	\$ 43,296

⁽¹⁾ Excluding defined benefit pension plan obligations presented in the Pension Plans section.

FINANCIAL POSITION

CAPITAL STRUCTURE

The general objectives of the Corporation's management, in terms of capital management, reside in the preservation of the Corporation's capacity to continue operating, providing benefits to its stakeholders and in providing an adequate return on investment to its shareholders by selling its products and services at a price commensurate with the level of operating risk assumed by the Corporation.

The Corporation thus determines the total amount of capital required consistent with risk levels. This capital structure is adjusted on a timely basis depending on changes in the economic environment and risks of the underlying assets.

In order to maintain or adjust its capital structure, the Corporation can, for example:

- Contract or repay long-term debt facilities;
- Issue new common shares;
- Repurchase common shares; and/or,
- Return capital to shareholders.

The net debt-to-equity ratio, calculated as net debt divided by shareholders' equity, is a key metric that is considered in the Corporation's capital management and monitoring practices.

During fiscal year ended March 31, 2024, the Corporation pursued the same capital management strategy as last year, which consists in generally maintaining a sufficient net debt-to-equity ratio to allow access to financing at a reasonable or acceptable cost.

The Corporation's net debt-to-equity ratio was as follows, as at:

	March 31, 2024	March 31, 2023
Long-term debt	\$ 218,027	\$ 177,908
Deferred financing costs, net	1,601	2,070
Less: Cash	9,765	15,020
Net debt	\$ 209,863	\$ 164,958
Shareholders' equity	429,638	390,919
Net debt-to-equity ratio	0.49:1	0.42:1

Normal Course Issuer Bid

Management views the NCIB as a flexible means to allocate capital to drive shareholder value without compromising the Corporation's position for future growth initiatives, whether they are new contract opportunities or business acquisitions.

Fiscal 2024 NCIB

On August 8, 2023, the Corporation announced a Normal Course Issuer Bid ("NCIB") for the purchase for cancellation of up to 1,791,984 common shares on the open market through the TSX or alternative trading facilities. The NCIB began on August 10, 2023, and will end on August 9, 2024, or on such earlier date when the Company has either acquired the maximum number of common shares allowable under the NCIB or decided not to make any further purchases under it. The following table describes shares repurchased during the fiscal year:

	Number of shares	Average cost per share	Total cost
Quarter ended June 30, 2023 (Fiscal 2023 NCIB)	101,200	\$ 14.62	\$ 1,302
Quarter ended September 30, 2023 (Fiscal 2024 NCIB)	158,003	15.74	2,487
Quarter ended December 31, 2023 (Fiscal 2024 NCIB)	194,300	15.49	3,010
Quarter ended March 31, 2024 (Fiscal 2024 NCIB)	—	—	—
Total	453,503	\$ 14.99	\$ 6,799

Fiscal 2023 NCIB

On May 19, 2022, the Corporation announced a Normal Course Issuer Bid ("NCIB") for the purchase for cancellation of up to 1,896,079 common shares on the open market through the TSX or alternative trading facilities. The NCIB began on May 25, 2022, and ended on May 24, 2023. In fiscal year 2023, the Corporation repurchased and cancelled 482,703 common shares for a cash consideration of \$6.5 million representing a weighted average price of \$13.56 per share.

ISSUED CAPITAL

Capital stock varied as follows:

	Fiscal year ended March 31, 2024	
	Number of shares	Issued capital
Opening balance	34,107,073	\$82,459
Repurchase and cancellation	(453,503)	(1,096)
Ending balance	33,653,570	\$81,363

As at May 21, 2024, the number of common shares outstanding stood at 33,653,570.

Stock options varied as follows:

	Fiscal year ended March 31, 2024	
	Number of stock options	Weighted- average exercise price
Opening balance	1,635,500	\$ 14.59
Granted	370,000	14.07
Expired	(96,000)	15.01
Cancelled / forfeited	(14,000)	14.46
Ending balance	1,895,500	\$ 14.47

As at March 31, 2024, 2,122,662 common shares remained reserved for issuance upon exercise of stock options (2,122,662 at March 31, 2023). As a result, the Corporation may issue a further 227,162 stock options within the current reserve.

As at May 21, 2024, the number of stock options outstanding stood at 1,895,500.

For further information regarding the Corporation's outstanding issued capital and related compensation plans, refer to Note 21, *Issued Capital*, to the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Working Capital

The Corporation's working capital was as follows, as at:

	March 31, 2024	March 31, 2023	Variance	
Current assets	\$ 507,845	\$ 423,201	\$ 84,644	20.0 %
Current liabilities	240,946	223,939	17,007	7.6 %
Net working capital	\$ 266,899	\$ 199,262	\$ 67,637	33.9 %
Working capital ratio	2.11	1.89		

The \$84.6 million increase in current assets is mainly due to a \$60.4 million increase in inventories and a \$26.4 million increase in accounts receivable.

The \$17.0 million increase in current liabilities is mainly due to a \$11.7 million increase in accounts payable and accrued liabilities and a \$5.6 million increase in customer advances and progress billings.

Long-term assets, Long-term liabilities and Shareholders' equity

The Corporation's long-term assets and liabilities and shareholders' equity were as follows, as at:

	March 31, 2024	March 31, 2023	Variance	
Long-term assets	\$ 403,578	\$ 398,136	\$ 5,442	1.4 %
Long-term liabilities	240,839	206,479	34,360	16.6 %
Shareholders' equity	429,638	390,919	38,719	9.9 %

The \$5.4 million increase in long-term assets over the fiscal year mainly relates to the \$6.9 million increase in finite-life intangible asset.

The \$34.4 million increase in long-term liabilities mainly results from the \$41.0 million drawdown on the Revolving Facility, partly offset by a higher portion of long-term debt attributed to the current portion.

The \$38.7 million increase in Shareholders' equity is essentially driven by \$38.3 million of net income.

PENSION PLANS

The Corporation has funded and unfunded defined benefit pension plans as well as defined contribution pension plans that provide pension benefits to its employees. Retirement benefits provided by the defined benefit pension plans are based on either years of service and flat amount, years of service and final average salary, or set out by individual agreements.

The net defined benefit obligations varied as follows, during fiscal year:

	2024	2023
Net pension plan assets, beginning of year	\$ 3,754	\$ 5,325
Net gains (losses) from remeasurement	1,126	(1,709)
Employer contributions	804	1,028
Current service cost	(555)	(791)
Interest on net defined benefit obligations	164	194
Other	(364)	(293)
Net pension plan assets, end of year	\$ 4,929	\$ 3,754
Amount recognized in other long-term assets	5,495	4,707
Amount recognized in other long-term liabilities	(566)	(953)

The funding status of the Corporation's pension plans was as follows, as at:

	March 31, 2024	March 31, 2023
Present value of defined benefit obligations of funded plans	\$ 59,895	\$ 58,966
Fair value of plan assets	73,203	68,980
Funding ratio	122.2 %	117.0 %

The Corporation made contributions of \$0.8 million and \$3.9 million to its defined benefit and defined contribution benefit plans, respectively, during fiscal 2024, and expects to make respective contributions of \$0.9 million and \$4.0 million during fiscal 2025. The increase in the net pension plan assets is mainly due to the return on plan assets that exceeded the interest expense on defined benefit obligations during the fiscal year. Refer to Note 24 - *Pension and Other Retirement Benefit Plans* to the Consolidated Financial Statements for further details regarding these assumptions.

ADDITIONAL INFORMATION

FOREIGN EXCHANGE

As a Corporation with operations in various countries which deals with customers from across the world, Héroux-Devtek's financial position and results of operations are partly influenced by movements in foreign exchange ("FX") rates. More specifically, the Corporation has operations in Canada, the United States, Spain and the United Kingdom, and thus incurs costs denominated in the respective currencies of these four countries, the Canadian dollar ("CAD"), United States dollar ("USD") Euros ("EUR") and British pound ("GBP"). In addition to costs denominated in their local currencies, a large portion of materials costs of the Canadian, Spanish and British operations are denominated in USD, as is a large portion of their sales.

The Corporation must convert foreign-denominated revenues, expenses, assets and liabilities into CAD for financial reporting purposes. Gains and losses occur as a result of the fluctuations of these foreign currencies against the CAD between balance sheet periods, or between the date of a transaction and the reporting date.

Transactions denominated in foreign currencies are initially recorded at the functional currency rate of exchange at the date of the transactions, excluding the impact of forward foreign exchange contracts ("FFEC"), while the statement of income of foreign operations is translated at the average exchange rate for the period. Balance sheet items are translated at the spot rate on the reporting date.

The foreign exchange rates used to translate assets and liabilities into Canadian dollars were as follows, as at:

	March 31, 2024	March 31, 2023
USD (Canadian equivalent of US\$1.0)	1.3550	1.3533
EUR (Canadian equivalent of €1.0)	1.4632	1.4708
GBP (Canadian equivalent of £1.0)	1.7114	1.6726

The foreign exchange rates used to translate revenues and expenses into Canadian dollars were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2024	2023	2024	2023
USD (Canadian equivalent of US\$1.0)	1.3488	1.3518	1.3488	1.3231
EUR (Canadian equivalent of €1.0)	1.4642	1.4507	1.4629	1.3775
GBP (Canadian equivalent of £1.0)	1.7103	1.6429	1.6951	1.5941

Héroux-Devtek is most exposed to the performance of the USD versus CAD, GBP and EUR due to the prevalence of USD in Aerospace market transactions and the geographical location of operations. Fiscal 2024 featured an increase during the year in the value of the EUR and GBP compared to CAD and USD. Approximately 81% of the Corporation's sales are denominated in USD, compared to approximately 62% of the related costs, which creates significant net inflows of USD.

In order to manage this risk, the Corporation has put in place a foreign currency hedging policy whereby Héroux-Devtek contracts FFEC to sell USD in amounts equivalent to expected net inflows. This policy requires that the Corporation hedge between 50% and 100% of the identified net exposure, mainly over the next two fiscal years. See the *Derivative Financial Instruments* section for further details.

RISK MANAGEMENT

Héroux-Devtek operates in an industry which exposes it to a variety of risk factors and uncertainties that may have a material adverse effect on the business, financial condition and results. The Corporation is also subject to more general economic or natural risks which could have widespread, cross-industry impacts.

Héroux-Devtek's general philosophy is to avoid unnecessary risk and to limit, to the extent practicable, any risk associated with business activities. Taking any risk unrelated to normal business activities is considered inappropriate.

It is ultimately the responsibility of the Board of Directors and its committees to identify material risks to the business and ensure management performs adequate risk management duties. Their role in this regard is largely one of high-level decisions, oversight and review. In order to succeed, the Board of Directors entrusts the bulk of risk prevention, detection and mitigation to management.

It is corporate management's responsibility to ensure that systems and procedures are in place to identify and assess risk exposures and manage them within tolerable limits. In order to do so, management has set out the following objectives:

- identify and evaluate risk exposures and, when practicable, reduce exposures to a tolerable level;
- use the most effective and efficient methods to eliminate, reduce or transfer risk exposures; and,
- consider risks associated with operating decisions and structure transactions in such a fashion as to avoid risks whenever possible.

A key component of the Corporation's risk management practices is the Enterprise Risk Management ("ERM") process. The ERM process is a multi-level risk and control assessment procedure under which appraisals, insights and practices are solicited from management teams across all divisions, the senior management team, the Board of Directors, and internal leaders in specific fields of expertise. The information gathered is consolidated, assessed and synthesized to arrive at a comprehensive list of key risks, controls, responses and residual risks. The resulting information is incorporated into the internal audit program and communicated to the Audit Committee and Board of Directors, who also review key risks on a periodic basis.

The most significant risk management methods used by management have entity-wide impacts. Such entity-wide efforts include, but are not limited to:

- the establishment of a corporate culture which fosters responsible management and integrity by adhering to strict hiring policies and emitting strong tone from the top;
- the application of a code of ethical conduct and a whistleblower policy in order to assure the quality of the Corporation's corporate governance, and the integrity of the Corporation's functioning;
- the establishment and ongoing alignment of company-wide quality organizations and systems, including supply chain, quality assurance and continuous improvement; and,
- the company-wide establishment of a strong internal control environment in order to manage risks associated with financial reporting, fraud, treasury and operations.

The tables below include a selection of key risks identified by management as well as the related risk management approach. This list is not, nor is it intended to be, exhaustive. Other risks which may not yet have been identified by management could have an adverse effect on the Corporation's business, financial condition or results.

Strategic Risks

Strategic risks have company-wide impacts and are typically related to the Corporation's overall direction.

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
Reliance on large customers	The top five of Héroux-Devtek's customers represent approximately 53% of consolidated sales, including one customer representing 16%. The loss of one of these customers would have a material adverse impact on current and forecasted financial results.	This risk is partly mitigated by entering into long-term sales agreements with customers as well as by actively seeking out new and diverse customers in order to diversify the sales portfolio. In addition, further diversification is achieved by diversifying sales by subsegment and product or service within sales to individual customers.
Acquisitions and integrations	As a growth strategy, the Corporation at times engages in business acquisitions. Such acquisitions increase the size and scale of the Corporation, and may expose it to new geographical, political, operational and financial risks. Acquisitions furthermore may place significant demand on management or cause subsequent difficulties related to the integration of new operations. The integration of new operations poses risks, which are difficult to forecast, that may adversely affect the Corporation's growth and profitability, and may include the inability to successfully integrate acquired operations.	Héroux-Devtek carefully selects acquisition targets within restrictive criteria and only goes forward when satisfactory fit is identified. Acquisition agreements, further, are rigorously negotiated with the goal in mind to mitigate key acquisition risks via mutually agreeable conditions, warranties and contingent pricing agreements. The Corporation also manages risks associated with acquisitions and integrations via thorough due diligence work, internal experience and external assistance, as needed. Héroux-Devtek plans integration of acquisitions from the top down and dedicates resources over the long term in order to optimize integration and achieve strategic goals.

Financial Risks

Financial risks are related to the financial condition, results and liquidity of the Corporation and/or relate to market conditions directly related to the Corporation.

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
Foreign currency fluctuations	Refer to the <i>Foreign exchange</i> section under <i>Overview</i> for details of Héroux-Devtek's exposure to foreign exchange rate fluctuations and related risk management practices.	details of Héroux-Devtek's exposure to foreign exchange
Liquidity, capital resources and related covenants	The Corporation requires continued access to capital markets to finance its activities. The long-term nature and up-front cost structure of certain programs can require significant amounts of start-up costs. Inability to access such capital could impede the Corporation's ability to bid on significant contracts, or negatively impact ongoing operations. Héroux-Devtek has access to such financing from its banking syndicate, unsecured subordinated term loan facility as well as from loans from government authorities and leasing facilities. These agreements subject the Corporation to financial covenants as described in the <i>Liquidity and Capital Resources</i> section. They also restrict the Corporation's ability to sell all or substantially all of its assets, incur certain forms of indebtedness, engage in mergers or consolidations or engage in transactions with affiliates without lender consent. These restrictions and covenants could impede access to capital or prevent the Corporation from engaging in business activities that may be in its interest.	In order to maintain proper liquidity, Héroux-Devtek makes cash management a daily priority. Liquidity balances, receivables, cash projections and market rates of foreign exchange and interest are monitored continuously. In order to ensure stability and long-term financial viability, the Corporation also: -Ensures proper bid approval in order to ensure proper forecasting and risk assessment of revenue and costs; -Structures contracts in order to obtain customer advances and progress billings; -Develops long-term agreements with customers and suppliers which go through bid processes for key costs; -Performs long-term cash projections as part of the annual budget and strategic plan process; -Maintains positive relationships with all major creditors. Management also monitors covenants on an ongoing basis in order to ensure they are met and identifies trends which could indicate future risks.

<p>Changing interest rates</p>	<p>The Corporation is exposed to fluctuations in interest rates through the floating rate of its Revolving facility as well as the impact on the cost of future capital requirements.</p> <p>Fluctuations in interest rates may also negatively impact the balance sheet by their impact on rates used by Héroux-Devtek to discount provisions and pension obligations, among other balances.</p>	<p>Héroux-Devtek's risk management policies specifically address the management of interest rate risk by allowing the use of derivatives such as interest rate swaps.</p> <p>Outstanding derivatives are detailed in the Derivative Financial Instruments section under Additional Information.</p> <p>Risks associated with pensions are managed through investment policies put in place by the Corporation and pension committees.</p>
<p>Tax matters and changes in tax laws</p>	<p>As a multinational company conducting operations through subsidiaries in multiple jurisdictions, the Corporation is subject to income and other tax laws and fiscal policies in numerous jurisdictions. The effective income tax rate in the future could be adversely affected as a result of a number of factors, including changes in the mix of earnings in countries with differing statutory tax rates, changes in tax laws, treaties or regulations or their interpretation, and the outcome of income tax audits (including transfer pricing) in various jurisdictions around the world. The assessment of additional taxes, interest and penalties could be materially adverse to the Corporation's current and future results of operations and financial condition.</p>	<p>Management regularly assess all tax matters to determine the adequacy of the tax compliance. Management is also supported by legal and accounting tax specialists to insure compliance in all respective jurisdictions that we operate in.</p> <p>Developments in tax regulations are closely monitored by management to ensure continuous compliance.</p>

Operational Risks

Operational risks are more specific to or result from Héroux-Devtek's operations than strategic risks.

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
<p>Supply chain</p>	<p>The pressure on the supply chain resulting from the Covid-19 pandemic, geopolitical tensions or other events could lead to supply disruptions for the Corporation.</p> <p>Prolonged disruption in the supply chain could have a material adverse effect on the Corporation's operations, significantly increase the cost of operating its business and significantly reduce its margins and profitability.</p> <p>Also, reductions in quality, increased lead times and reliability of supply, including raw materials could result in material adverse effects on the Corporation's business and results.</p>	<p>Héroux-Devtek manages supplier-related risks through frequent supplier audits and maintaining high standards, such as requiring AS9100 and Nadcap certification.</p> <p>The Corporation tracks and monitors supplier performance and mitigates potential losses by ensuring poor quality, if any, is detected through internal quality management.</p> <p>Héroux-Devtek also has the ability to in-source or re-source manufacturing or finishing of many key parts in the event of critical issues in the supply chain.</p> <p>The Corporation also manages inventory levels with the objective of having safety stock of key components where more supply chain risk is perceived.</p>
<p>Availability of skilled labour</p>	<p>Execution of key programs and customer satisfaction are heavily reliant on employing top talent. The Corporation relies on such labour, particularly engineers, machinists and programmers, program management, procurement and finance.</p> <p>Competition is fierce when it comes to hiring and retaining such skilled employees.</p> <p>Retention or replacement may cause increased labour cost, while the Corporation may be unable to hire or retain key employees and suffer delays or lose cost efficiency in certain initiatives or deliveries.</p>	<p>Héroux-Devtek targets top candidates for key roles and carefully evaluates hires for long-term fit and growth. Retention of employees is addressed through solid human resources practices, competitive remuneration and, in the case of key management, incentive-based pay such as bonuses, stock options, performance share and restricted share units and stock purchase and ownership incentive plans. It also includes succession planning, for key employees up to senior management, discussed annually at the HR and governance committee.</p>

Collective bargaining agreements	The Corporation is party to certain collective bargaining agreements which govern the working relationship with certain employees. Failure to renew such agreements upon mutually agreeable terms could result in work stoppages or other labour disturbances which could have adverse effects on financial results, operational execution and customer satisfaction.	In order to minimize this risk, Héroux-Devtek endeavours to maintain cooperative and professional relationships with union leadership and plans the negotiation of renewals to allow reasonable time to achieve positive results.
Information technology	<p>Information technology systems are essential to most of Héroux-Devtek's operations. These systems could be vulnerable to cyber-attacks or spying, viruses and any other form of hardware or software failures, intentional or not.</p> <p>The non-availability of these systems would directly and negatively affect the Corporation's operations. Unauthorized access to first or third-party confidential data in Héroux-Devtek's possession would also negatively affect the Corporation's reputation and, consequently, its business and results.</p>	<p>In order to reduce technology-related risks, Héroux-Devtek has implemented a variety of measures, including:</p> <ul style="list-style-type: none"> - A security program based on the NIST framework, including frequent maturity assessments, audits and penetration tests; - 24/7 monitoring via a security operations center; - Intrusion detection and prevention solutions; - A global security committee, strict governance processes and policies regarding information technology; - A cybersecurity awareness program and phishing campaigns; and, - Disaster recovery planning.
Warranty casualty claim losses	The complex and sophisticated nature of the Corporation's products creates a risk that defects may be found after they have been delivered to customers. Such defects may result in warranty claims or customer losses for which Héroux-Devtek may be liable. Furthermore, the primary use of these products being for air travel may compound the magnitude of such warranty claims or losses. Liability for such losses, or the inability to correct such errors, may have material adverse effect on the Corporation's business and results.	<p>Héroux-Devtek's rigorous dedication to quality standards, systems and certifications in all stages of design, production or repair and overhaul partially mitigate the risk of product-related failure which could lead to warranty claims or litigation.</p> <p>The Corporation has in place a product support organization which monitors performance and reliability of products and also subscribes to product liability insurance which may mitigate potential losses.</p>
Litigation	<p>Héroux-Devtek is subject to possible litigation in the ordinary course of its business by, among others, customers, suppliers, competitors, shareholders or government agencies. Such litigation can vary both in terms of financial magnitude and in duration, either of which could remain unknown for substantial periods of time.</p> <p>Regardless of outcome, litigation could result in substantial costs to the Corporation in addition to potentially material losses, both of which would negatively impact financial results. Litigation, in addition, could divert management's attention and resources away from day-to-day operations and strategic objectives.</p>	<p>The Corporation employs internal and external legal professionals who advise senior management on the subject of ongoing legal, regulatory, export compliance and related risk management.</p> <p>The Corporation also subscribes to several forms of insurance coverage which may, in the event of liability of certain types, partially or entirely compensate for potential losses.</p>

External Risks

External risks are generally outside of management's control and mostly result from external factors.

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
General economic conditions	The aftereffects of the COVID-19 pandemic, and the fallout of Russia's invasion of Ukraine have combined to disrupt global supply chains and create significant economic uncertainty and disruption of financial and commodity markets. While the aerospace and defence industries have proven over the long-term to be relatively resilient in the face of economic turmoil, they are not immune to downturns. Such market conditions may also be caused by any number of factors, including but not limited to political instability, terrorist activity, or natural disasters. Such unfavourable conditions could negatively impact the Corporation through decreased sales and increased costs affecting the Corporation's profitability.	While such economic conditions are outside of the direct sphere of control of management, this risk is mitigated by continuous effort on the part of Héroux-Devtek to manage costs, capital and profitability in such a fashion as to maintain a healthy financial position, allowing for more resiliency in the event of unexpected downturns. Also, Héroux-Devtek indirectly manages this risk through maintaining a portfolio of customers and programs which is diversified both geographically and by market segment. This could decrease the overall impact of a downturn in any one of these market segments on the Corporation as a whole.
Inflation	Inflation can directly affect the price the Corporation pays for the goods and services it acquires or contracts and also usually has a trailing effect on labour costs. Inflation can be restricted to certain jurisdictions or, in rare cases, be broadly generalized and occur at a high velocity.	The Corporation's main customer contracts generally feature escalation clauses based on indices of consumer spending or material costs as appropriate. In other cases, key materials may be supplied by customers, or prices may be established by the cost on an order-to-order basis. Supplier contracts also normally include flow-down of terms and conditions included in long-term contracts with customers. As described in operational risks above, the Corporation also monitors the supply chain and workforce diligently.
Competition and innovation	Héroux-Devtek operates in an industry that has faced ongoing consolidation, resulting in a smaller overall number of larger competitors, as well as constant innovation in technology and products. Larger competitors may have increased capabilities to compete for significant contracts, as would competitors who bring new technological innovation to market. Either could result in lost customers or opportunities for the Corporation, hindering growth and future profitability.	Héroux-Devtek manages risk from competition by maximizing customer satisfaction, on-time delivery, bidding competitively and maintaining high quality products. The Corporation also manages risk associated with innovation by monitoring technological developments and performing in-house research and development in order to remain at the forefront of technology in the industry.
Defence spending	Defence spending is approved by governments on a yearly basis and is subject to political climates and changing priorities. Austerity measures or shifts away from defence spending on the part of a government, particularly that of the United States, could lead to a significant downward trend in demand for the Corporation's defence products.	The Corporation's diversified sales portfolio, including a growing commercial product portfolio, defence programs outside of the United States and balance between manufacturing and aftermarket products and services reduces the impact that a downward trend in defence spending on the part of certain governments could have.
Environmental matters	The Corporation's activities are subject to environmental laws and regulations associated with risks to human health and the environment. These laws and regulations and potential related charges could have a significant adverse effect on the Corporation's operations and financial condition.	Héroux-Devtek manages this risk by putting in place management systems and policies in order to manage and monitor the environmental impact its operations may have. In the event of an environmental incident which could lead to a larger loss, the Corporation also subscribes to insurance policies which may partially mitigate such losses.

DERIVATIVE FINANCIAL INSTRUMENTS

Héroux-Devtek makes use of certain derivative financial instruments as tools for risk management purposes in order to mitigate certain foreign exchange, interest rate or other price risks to which it is exposed. Management uses these derivatives within the guidelines laid out by the Corporation's risk management policy. See the *Risk Management* section for further details of Héroux-Devtek's risk management practices.

Forward foreign exchange contracts

The forward foreign currency contracts outstanding are as follows:

As at	March 31, 2024		March 31, 2023	
	Notional amount ⁽¹⁾	Average rate	Notional amount ⁽¹⁾	Average rate
Currencies (sold/bought)				
USD/CDN				
Less than 1 year	\$ 161,188	1.33	\$ 162,867	1.32
Between 1 and 3 years	113,330	1.32	125,196	1.30
Between 3 and 5 years	34,850	1.33	29,408	1.33
USD/GBP				
Less than 1 year	11,762	0.81	15,055	0.78
Between 1 and 3 years	24,839	0.81	23,627	0.81
Between 3 and 5 years	14,258	0.81	26,081	0.81
USD/EUR				
Less than 1 year	13,498	0.92	10,885	0.87
Between 1 and 3 years	13,254	0.91	13,517	0.92
Between 3 and 5 years	—	—	6,616	0.90
EUR/USD				
Less than 1 year	6,707	0.97	—	—
Between 1 and 3 years	10,158	0.96	—	—
EUR/CAD				
Less than 1 year	—	—	25,079	0.72
Total	\$ 403,844		\$ 438,331	

⁽¹⁾ Exchange rates as at the end of respective periods were used to translate amounts in foreign currencies.

Consistent with hedge accounting under IFRS, gains and losses on these FFEC are accounted for in other comprehensive income until settlement, at which point they are realized in the consolidated statement of income along with the related gain or loss on conversion of the hedged items. As at March 31, 2024, a 1% strengthening of the CAD versus the USD would result in a \$0.4 million decrease in the Corporation's fiscal 2024 net income.

Equity swap agreement

The Corporation's net income is exposed to fluctuations of its share price through its DSUs PSUs and RSUs (see note 21 to the consolidated financial statements). In order to mitigate this exposure, the Corporation has entered into equity swap agreements.

Pursuant to these agreements, upon settlement, the Corporation receives payment for any share price appreciation while providing payment to the financial institution for any share price depreciation. The net effect of the equity swap partly offsets movements in the Corporation's share price which impacts the expense resulting from the DSUs, PSUs and RSUs included in the Corporation's consolidated net income.

As at March 31, 2024, the equity swap agreements covered 500,000 common shares of the Corporation at a price of \$13.91 (400,000 common share at a price of \$13.39 as at March 31, 2023). All other conditions of the agreements stayed unchanged compared to March 31, 2023.

INTERNAL CONTROLS AND PROCEDURES

In compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuer's Annual and Interim Filings* ("Regulation 52-109"), the Corporation has filed certifications signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") that, among other things, report on disclosure controls and procedures and the design of internal controls over financial reporting.

Disclosure controls and procedures

The CEO and the CFO have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Corporation has been made known to them and has been properly disclosed in the interim and annual filings.

As at March 31, 2024, an evaluation of the design and effectiveness of the Corporation's disclosure controls and procedures was also carried out under the supervision of the CEO and CFO, as defined in Regulation 52-109. Based on this evaluation, the CEO and CFO concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation took into account the Corporation's disclosure policy and its disclosure committee.

Internal controls over financial reporting

The CEO and CFO have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

As at March 31, 2024, an evaluation of the design and effectiveness of the Corporation's internal controls over financial reporting was carried out under the supervision of the CEO and CFO, as defined in Regulation 52-109. Based on this evaluation, the CEO and CFO concluded that the design and effectiveness of these internal controls over financial reporting were effective to provide reasonable assurance that the Corporation's financial reporting is reliable and that the Corporation's consolidated financial statements were prepared in accordance with IFRS. However, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Changes in internal controls over financial reporting

No changes were made to the Corporation's internal controls over financial reporting during the fiscal year ended March 31, 2024 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require material adjustments to the Corporation's financial results or the carrying amount of assets or liabilities.

Key estimates and assumptions are as follows:

Impairment of goodwill and other non-financial assets

Impairment exists when the carrying amount of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal ("FVLCD") and its value in use. The FVLCD calculation is based on a market approach, which is based on multiples of recent sector notable transactions applied to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA", a non-IFRS measure), less incremental costs of disposal. The recoverable amount is most sensitive to the multiple selected and revenue and EBITDA margin forecasts in determining future forecasted cash flows as further explained in note 16 to the Consolidated financial statements.

Deferred income tax assets

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Corporation establishes provisions based on reasonable estimates for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred income tax assets are recognized for unused tax losses and deductible temporary differences to the extent it is probable that taxable income will be available against which the losses and deductible temporary differences can be utilized. Management's judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

Pensions and other retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. In determining appropriate discount rates, management considers the interest rates of high-quality corporate bonds. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The significant assumptions used to determine the defined benefit obligations and the pension expense, including a sensitivity analysis, are further explained in note 24 to the Consolidated financial statements.

Provisions

The Corporation has recorded provisions to cover cost exposures that could materialize in future periods. In determining the amount of the provisions, assumptions and estimates are made in relation to discount rates and the expected cost to settle such liabilities.

Government Authorities Loans

The Corporation has outstanding loans with government authorities with variable repayment schedules. Annual repayments of these loans generally vary based on the Corporation's sales growth. In order to account for the present value of these loans under the effective interest method, or for government assistance upon initial recognition, management must estimate sales growth over the expected duration of the loan. These forecasts are used to determine the expected repayment schedules. In determining these amounts, management must rely on market rates of interest and assumptions such as, but not limited to, current and future order intake, industry order backlogs, Original Equipment Manufacturer ("OEM") production rates, expected economic conditions, the stability of foreign exchange rates and the Corporation's ability to deliver on key contract initiatives.

SELECTED FINANCIAL INFORMATION

Selected financial information is as follows, for the quarters ended:

Fiscal year	2024				2023			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Sales	\$184,053	\$163,518	\$141,499	\$140,697	\$155,978	\$140,875	\$132,680	\$114,089
Operating income	27,612	15,554	9,101	7,496	9,879	5,111	8,562	2,646
Adjusted EBITDA ⁽¹⁾	33,069	24,537	18,221	16,357	19,595	14,129	16,216	11,426
Net Income	20,693	8,980	4,628	3,970	6,288	1,773	4,799	965
Adjusted Net Income ⁽¹⁾	16,732	8,980	4,628	3,970	6,288	1,773	3,580	965
<i>In dollars per share</i>								
Earnings per share diluted	\$ 0.61	\$ 0.27	\$ 0.14	\$ 0.12	\$ 0.18	\$ 0.05	\$ 0.14	\$ 0.03
Adjusted Earnings per share ⁽¹⁾	0.49	0.27	0.14	0.12	0.18	0.05	0.10	0.03
<i>In millions of shares</i>								
Weighted average number of common diluted shares outstanding	33.9	33.9	34.1	34.2	34.3	34.5	34.6	34.6

⁽¹⁾ Non-IFRS financial measure. Refer to the Non-IFRS financial measures section under Operating Results for definitions and reconciliations to the most comparable IFRS measures.

Seasonal trends

Héroux-Devtek's first semester is usually slower than the last one due to seasonal factors such as plant shutdowns and summer vacations.

Selected financial information is as follows, for fiscal years:

	2024	2023	2022
Sales	\$ 629,767	\$ 543,622	\$ 536,087
Operating income	59,763	26,198	44,758
Adjusted EBITDA ⁽¹⁾	92,184	61,366	83,049
Net income	38,271	13,825	32,140
Adjusted net income ⁽¹⁾	34,310	12,606	33,839
Earnings per share (\$) - basic	1.13	0.40	0.91
Earnings per share (\$) - diluted	1.13	0.40	0.90
Adjusted earnings per share ⁽¹⁾ (\$)	1.01	0.37	0.95
Cash	9,765	15,020	86,692
Total assets	911,423	821,337	813,358
Long-term financial liabilities ⁽²⁾	221,285	183,756	238,419

⁽¹⁾ Non-IFRS financial measure. Refer to the Non-IFRS financial measures section under Operating Results for definitions and reconciliations to the most comparable IFRS measures.

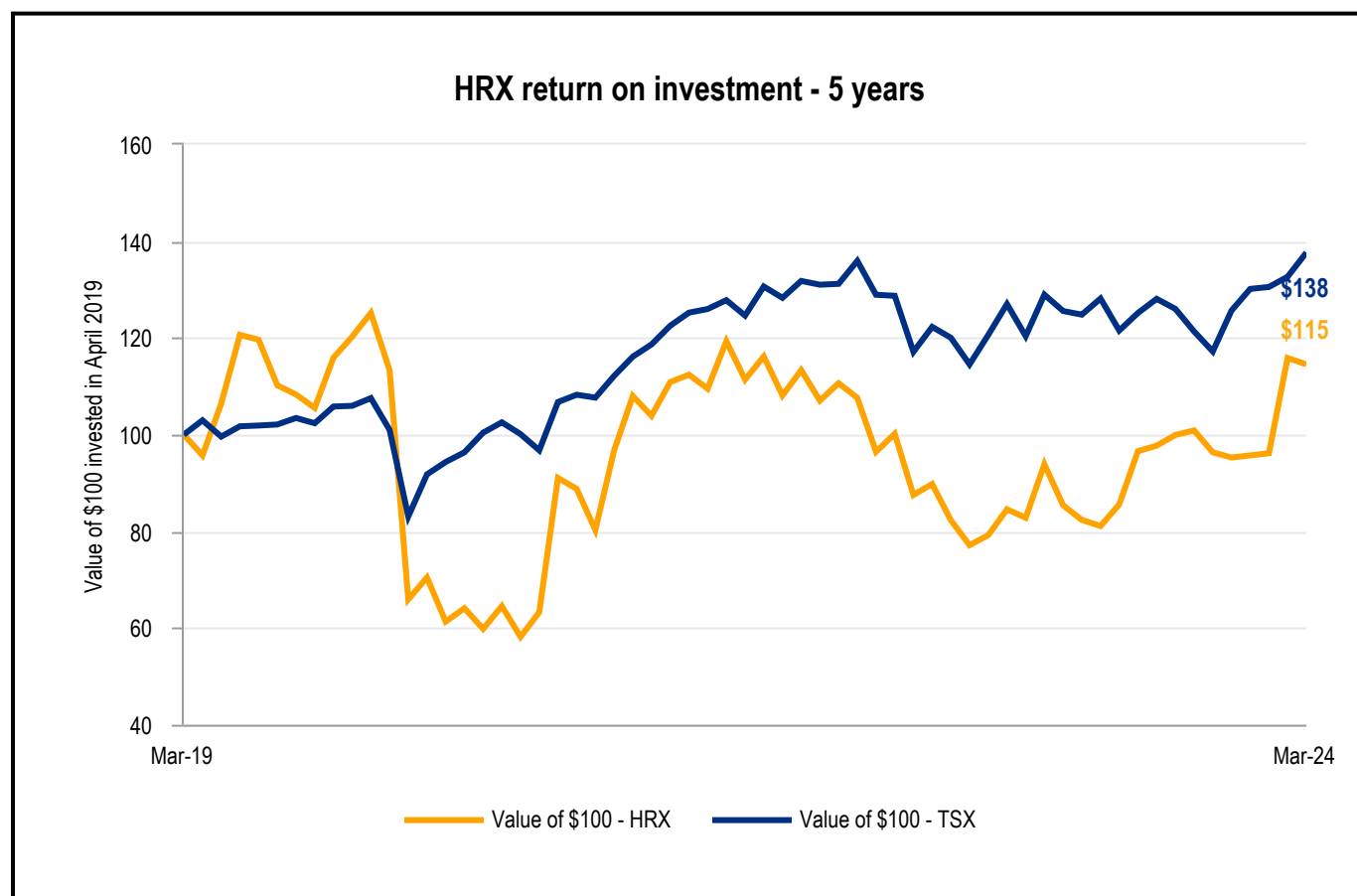
⁽²⁾ Represents long-term debt including the current portion, long-term derivative financial instruments, and the pension and other retirement benefit liabilities included in other liabilities.

SHAREHOLDER INFORMATION

ISSUED CAPITAL	May 21, 2024
Common shares issued and outstanding	33,653,570
Stock options issued and outstanding	1,895,500

Héroux-Devtek's shares are traded on the Toronto Stock Exchange under the ticker "HRX" and Computershare Trust acts as registrar and transfer agent.

Expected issuance date of financial results	
Fiscal 2025	
First quarter	August 6, 2024
Second quarter	November 12, 2024
Third quarter	February 7, 2025
Fourth quarter	May 20, 2025



ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and by the Board of Directors on May 21, 2024. Additional information about the Corporation, including the Annual Information Form, can be found on SEDAR at www.sedar.com or on the Corporation's website at www.herouxdevtek.com.

SHAREHOLDER INFORMATION



ANNUAL MEETING OF SHAREHOLDERS

Tuesday, August 6, 2024, at 10:00 A.M.
Held virtually via webcast. The webcast can be accessed through the Events section of our website.

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AUDITORS

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514 875-6060

SHARE LISTING

Shares are traded on the Toronto Stock Exchange
Ticker Symbol: HRX

INVESTOR RELATIONS

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